Center for Analysis and Information Services

Special Conference:

San Francisco Bay Area Economy

1991-1992

ABAG
Association of Bay Area Governments

P.O. Box 2050
Oakland, CA 94604
(415) 464-7900

MetroCenter
8th and Oak Streets
Oakland

Special Report of the Association of Bay Area Governments:

San Francisco Bay Area Economy: 1991 and 1992

January 29, 1991

8:30 a.m.	**Registration**
9:00 - 9:10 a.m.	**Welcome and Overview**
	Eugene Y. Leong, Associate Executive Director, ABAG
9:10 - 9:55 a.m.	**Regional and County-by-County Economic Forecast**
	Sluggish Growth, Recession, Slowdown or Long-Term Trend? Housing Prices: Loss or Gain Ahead? Winners and Losers: Impacts of Job Decentralization
	Raymond J. Brady, Research Director, ABAG
9:55 - 10:05 a.m.	Break
10:05 - 10:40 a.m.	**Retail Sales: Economic Changes in the Bay Area**
	Increases in Service Sector Sales: Where and Why? Loma Prieta's Retail Impact: Where Did the Sales Go? Decentralization in Retail: Has the Wave Stabilized?
	Eric Caindec, Senior Analyst, ABAG
10:40 - 10:50 a.m.	Break
10:50 - 12:00 noon	**Guest Commentary**
	Setting Economic Priorities in the Midst of Change: Long-term Structural Adjustments Needed To Get the Economy Rolling Again
	Walter Hoadley, Senior Research Fellow, Hoover Institution, Stanford University
	The Golden State's Economic Outlook for 1991: Is California Losing its Uniqueness?
	Pauline Sweezey, Chief Economist, Department of Finance, State of California

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SAN FRANCISCO BAY AREA ECONOMY: 1991 and 1992

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ABAG Speaker Biographies

Eugene Y. Leong, Associate Executive Director of the Association of Bay Area Governments, has oversight responsibilities for all of the agency's programs. These include environmental and energy studies, as well as planning and technical analyses in housing, economic development, demographic projects and land use. Before assuming his current responsibilities, he spent over ten years as a project manager for ABAG and several private environmental planning and engineering consulting firms conducting a wide variety of environmental studies. Dr. Leong has authored many reports and technical articles. He has often lectured in environmental management and has made numerous presentations at conferences. Dr. Leong is a graduate of the University of Michigan and UCLA, where he received his doctorate in Environmental Science and Engineering in 1974.

Raymond J. Brady, Director of Analytical and Information Services, is responsible for analytical support services and systems modeling for the Association of Bay Area Governments. His responsibilities consist of the maintenance and expansion of information services; economic, demographic, and land use models; and the design of new systems required in the support of other ABAG programs.

Before coming to ABAG, he worked in research groups at the University of Minnesota and the University of New Mexico and for a private environmental engineering consulting firm. Dr. Brady has authored numerous reports, technical articles, and journal publications. Dr. Brady teaches quantitative methods part-time at the University of California, Berkeley. He has a degree in economics from Louisiana State University and a degree in planning from the University of Arizona. He received his doctorate in Management Systems Engineering from Tulane University in 1980.

Eric K. Caindec, Senior Analyst with the Association of Bay Area Governments, is responsible for the forecasting of future employment, housing and population levels throughout the nine counties of the San Francisco Bay Region. His interests lie in operations research, statistical modeling and economic forecasting. He has recently concluded an analysis of the retail sales patterns which have occurred in the San Francisco Bay Region during the past twenty years.

Before joining ABAG, he worked as a Cost Analyst for Tecolote Research in Santa Barbara developing forecasting models, collecting and analyzing historical data, and conducting tradeoff and sensitivity analyses. Mr. Caindec is a Certified Cost Analyst as designated through the Society of Cost Estimating and Analysis. He has a B.A. in Economics Mathematics from the University of California, Santa Barbara, and a M.S. in Systems Management from the University of Southern California.

Guest Speaker Biographies

Walter E. Hoadley, Senior Research Fellow at the Hoover Institution, Stanford University. He previously served as executive vice president and chief economist at the Bank of America from 1968-1981. Prior to joining the bank, he was chairman of the Federal Reserve Bank of Philadelphia; chairman of the Conference of the twelve Federal Reserve Banks; and chief financial officer of Armstrong World Industries. His major areas of study are economic forecasting, the global financial system, and management decision-making.

Dr. Hoadley is active in a wide variety of United States and international business and professional groups, and holds a number of corporate directorships. He is an international author and lecturer and is president of the University of California Alumni Association and past-president of the Commonwealth Club of California.

He has written numerous articles on forecasting, global finance, and other economic subjects. His book, "Looking Behind the Crystal Ball," was published in 1988.

Dr. Hoadley received his master's degree and his doctorate in Economics from the University of California at Berkeley.

Pauline Sweezey, Chief Economist for the California Department of Finance. She is responsible for the national and state economic forecasts underlying the Governor's Budget, provides economic advice to the Administration, and produces periodic reports on economic trends and developments in the state. She joined the Department in 1964.

Before that she was an economist with the Standard Oil Company of California. She established the Department of Finance Economic Research Unit as a primary source of information on the state and its regions to other levels of government, business, institutions, and individuals.

She received her BA in Economics with Honors at Graduation from Stanford University and her MA in Economics from California State University, Sacramento.

Association of Bay Area Governments

ABOUT ABAG

The Association of Bay Area Governments (ABAG) is one of more than 450 councils of governments across the nation working to help solve problems in areas such as land use, housing, transportation, environmental quality, and economic development.

ABAG is owned and operated by the cities and counties of the San Francisco Bay Area. It was established in 1961 to protect local control, plan for the future, and promote cooperation on areawide issues. In recent years, ABAG has answered the needs of its members by providing low-cost services that save taxpayers millions of dollars.

The General Assembly is the overall governing body of the organization. Each member city and county designates a representative. ABAG's operations are directed by an Executive Board composed of 38 elected officials from member cities and counties. Much of ABAG's work is carried on by committees appointed by the Executive Board, including joint committees with the Metropolitan Transportation Commission and the Bay Area Air Quality Management District. Advisory committees and task forces are appointed from time to time to oversee special programs in areas such as air quality, water quality, energy, and economic development. All meetings are open to the public.

REGIONAL PLANNING

In ABAG's region there are 98 cities and the nine counties of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma. Nearly 6 million people live in this 7,000-square-mile area.

Where will these people live, where will they work, will transportation be adequate? How can we control air and water pollution, will water supplies be sufficient? Are we prepared for a major natural disaster? These are the kinds of questions that cannot be addressed easily without cooperative action among many agencies, organizations, and the general public.

Through its role as an association of cities and counties, ABAG has been designated by the state and federal governments as the official comprehensive planning agency for the Bay Area. Its locally adopted Regional Plan provides a policy guide for planning the region's housing, economic development, environmental quality, transportation, recreation, health and safety.

One of ABAG's vital functions is to provide a forum to resolve local differences through workable compromises. Its active public information program encourages citizen involvement in planning and policy decisions. The association also sponsors workshops and conferences where local officials, business and industry leaders, special interest groups, and private citizens can discuss programs, regulations, and legislation affecting their communities.

ABAG SERVICES

As city and county budgets are tightened in the slipknot of rising costs and diminishing income, ABAG stretches its services to ease the effect. ABAG offers cost-saving services to its members including demographic information and data analysis, capital financing, liability and property insurance, workers' compensation administration, conference services, and specialized training programs — the largest of which, a statewide hazardous materials conference, HAZMACON, attracts 7,000 participants.

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The Center for Analysis and Information Services (CAIS) is the research and information unit of the Association of Bay Area Governments, the regional planning agency for the nine-county San Francisco Bay Area.

CAIS provides information and analysis services to public organizations and the private sector. Population projections, demographic and economic analysis, small area market research, and identification of development constraints and potentials are just a few examples of data services that CAIS provides.

Whether you need data, personalized research, planning assistance or technical consulting, CAIS can perform these for you at a cost within your planning or marketing budget.

Please call us for more information.

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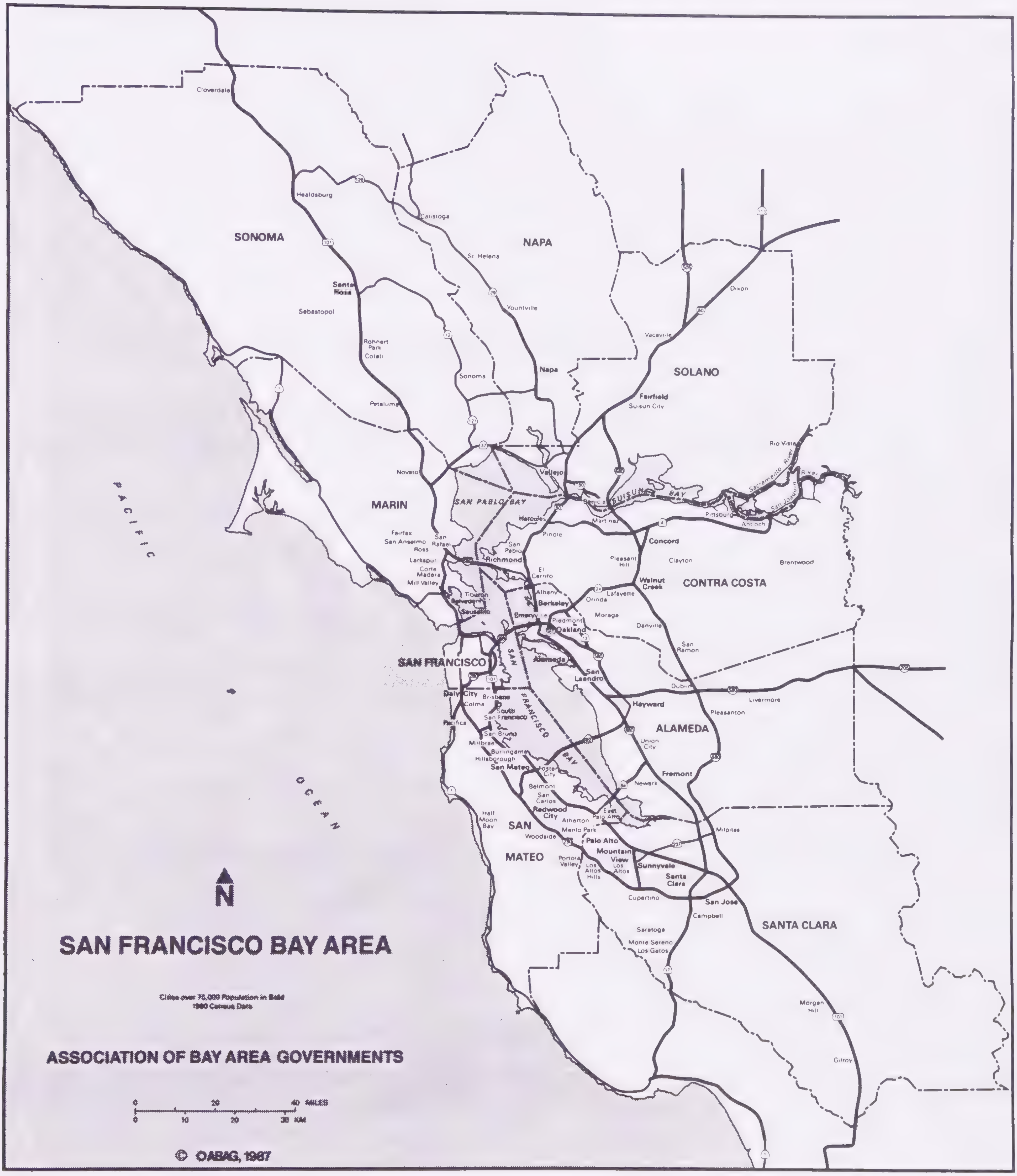
Janet McBride, MUPP	415/464-7955	Land use data and development studies
Patricia Perry, MCP, MBA	415/464-7957	1990 Census; Environmental review of development projects
Chin Ming Yang, Ph.D.	415/464-7925	Data files and modeling


SAN FRANCISCO BAY AREA
Cities over 75,000 Population in Bold
1980 Census Data
ASSOCIATION OF BAY AREA GOVERNMENTS
0 20 40 MILES
0 10 20 30 KM
© ABAG, 1987
N
PACIFIC
OCEAN
SONOMA
NAPA
SOLANO
MARIN
CONTRA COSTA
ALAMEDA
SAN FRANCISCO
SAN MATEO
SANTA CLARA
SAN PABLO BAY
SUISUN BAY
SAN FRANCISCO BAY
Cloverdale
Healdsburg
Calistoga
St Helena
Santa Rosa
Sebastopol
Yountville
Rohnert Park
Cotati
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Napa
Petaluma
Novato
Vallejo
Fairfield
Suisun City
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Forecasting Short-term Economic Growth

This is the third in a series of short-term economic forecasts prepared by the Center for Analysis and Information Services at the Association of Bay Area Governments. Our discussion today focuses on job growth, inflation, retail sales, and income growth as well as some underlying constraints that could affect our forecast and other forecasts for the Bay Area.

We shouldn't underestimate the importance or impact of economics on our everyday lives. If we as citizens, policy makers and entrepreneurs are to be successful in creating not only more wealth for ourselves but also for all citizens of society, understanding economics and its impact is of critical importance.

Increasingly, the public sector at the regional and subregional level is concerned about the future of the economy. Administrators of local governments recognize the importance of a healthy economy to their local communities. This importance comes in the form of jobs for their local citizens, as well as revenues needed to pay for services demanded by these same individuals. Therefore, primary clients of our short-term economic forecasts are the local governments that comprise the Association of Bay Area Governments. In addition, however, the private sector is increasingly using economic and demographic information developed by ABAG. We have a responsibility to provide our interpretation of the potential economic and demographic constraints that could affect decisions in the offices of corporate boardrooms and small businesses.

All forecasts should be accepted with the understanding that they represent expert opinion. Experts, however, are known to become occasionally jaundiced when viewing the future. Even though economic theory is highly developed, understanding the timing of economic events or impacts of public policy and the interrelationship and feedback that occur in economic systems still has not developed into an exact science. Therefore, the science of economics should be balanced against the reality that art still plays an important role in economic analysis.

Recessions:

A review of how hard Bay Area was hit in the past

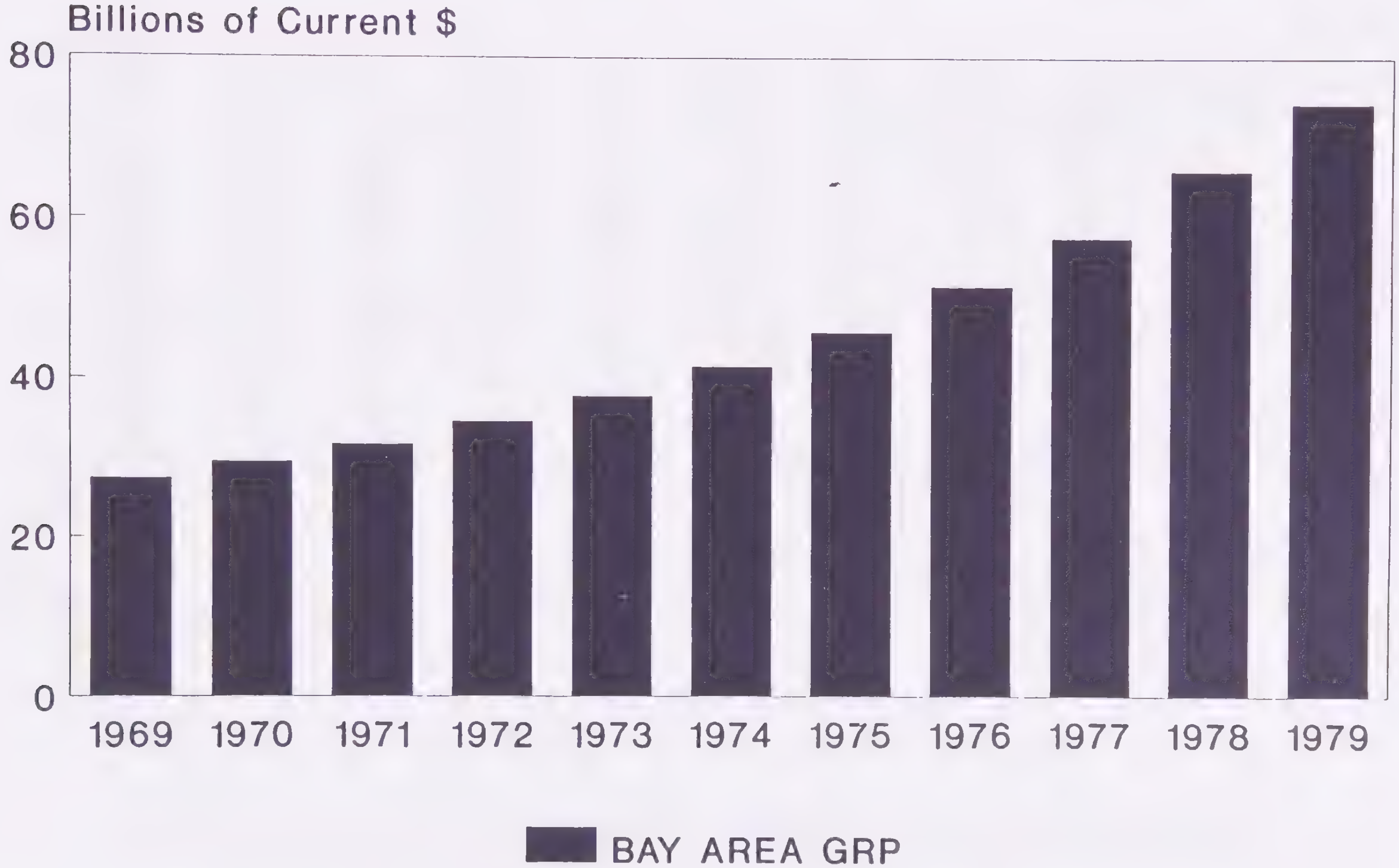
1974 - 1975 Recession

Cause: Oil price shock
Price adjustment
Investment shock

4

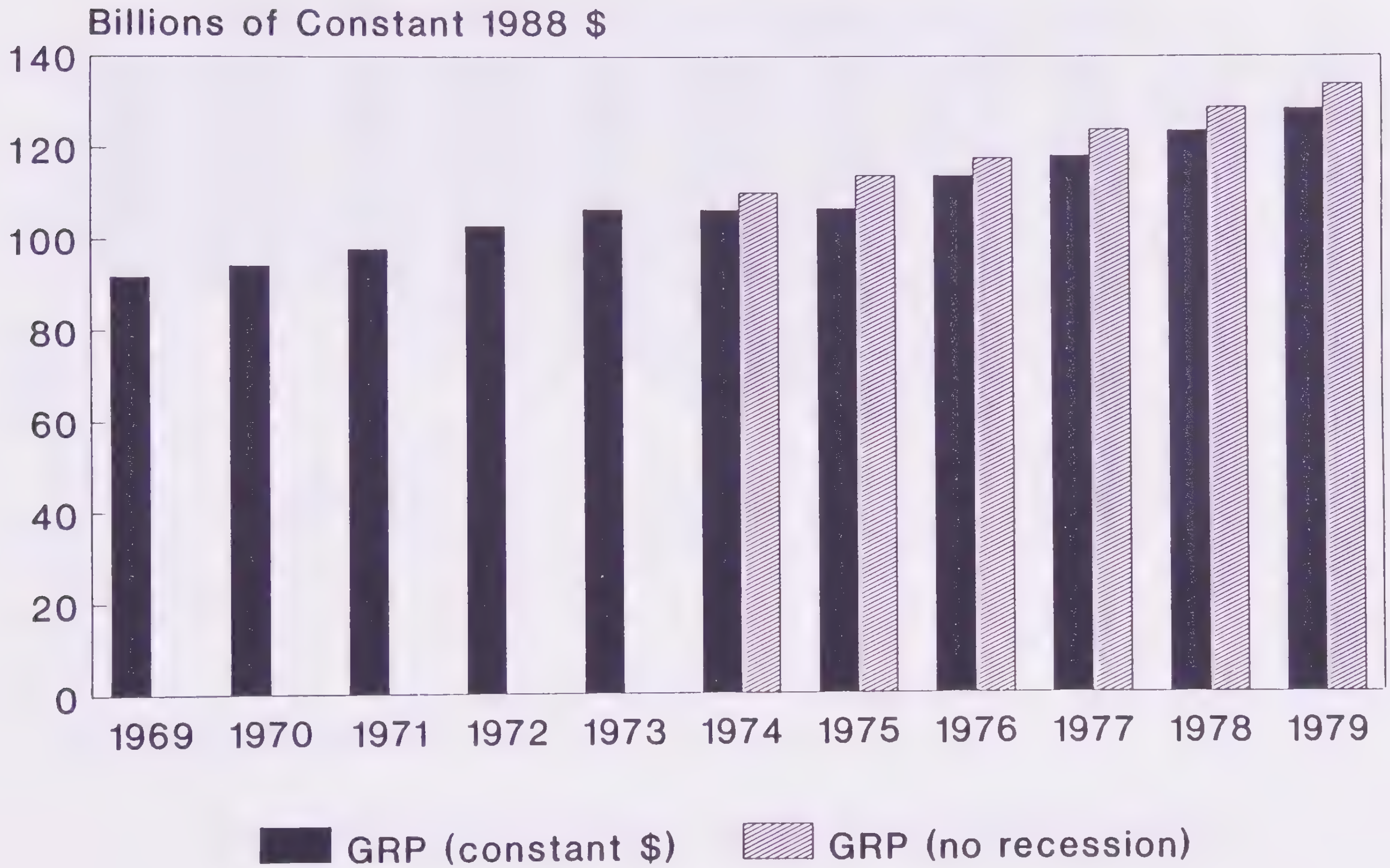
Length: 1 year

GROSS REGIONAL PRODUCT
IMPACT OF 1974-1975 RECESSION



SOURCE: ABAG

GROSS REGIONAL PRODUCT
IMPACT OF 1974-1975 RECESSION



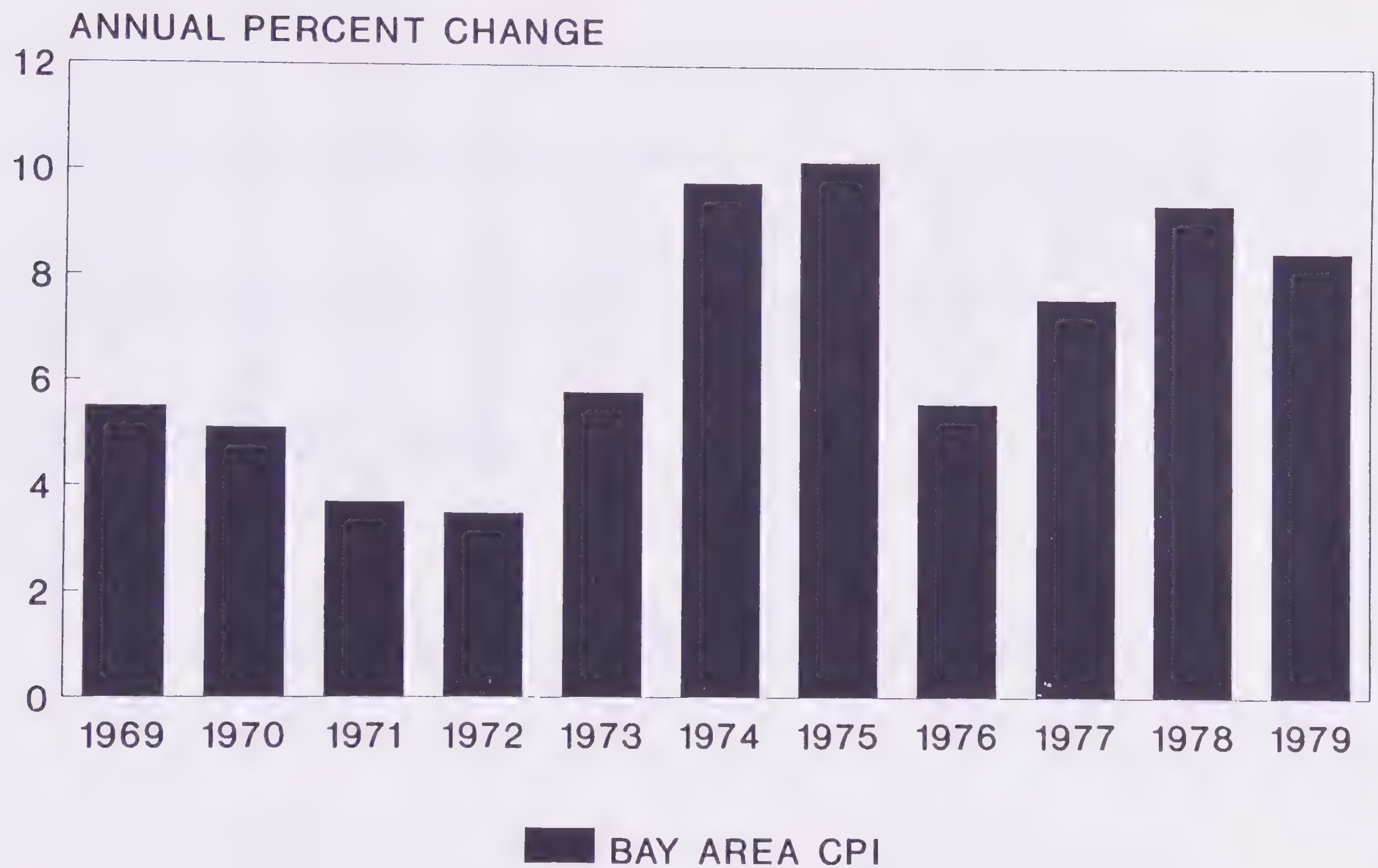
SOURCE: ABAG

CPI and Wage Impacts

- Oil shock identified
- Wages in nominal dollars minimally effected
- Real wage stagnation began before recession

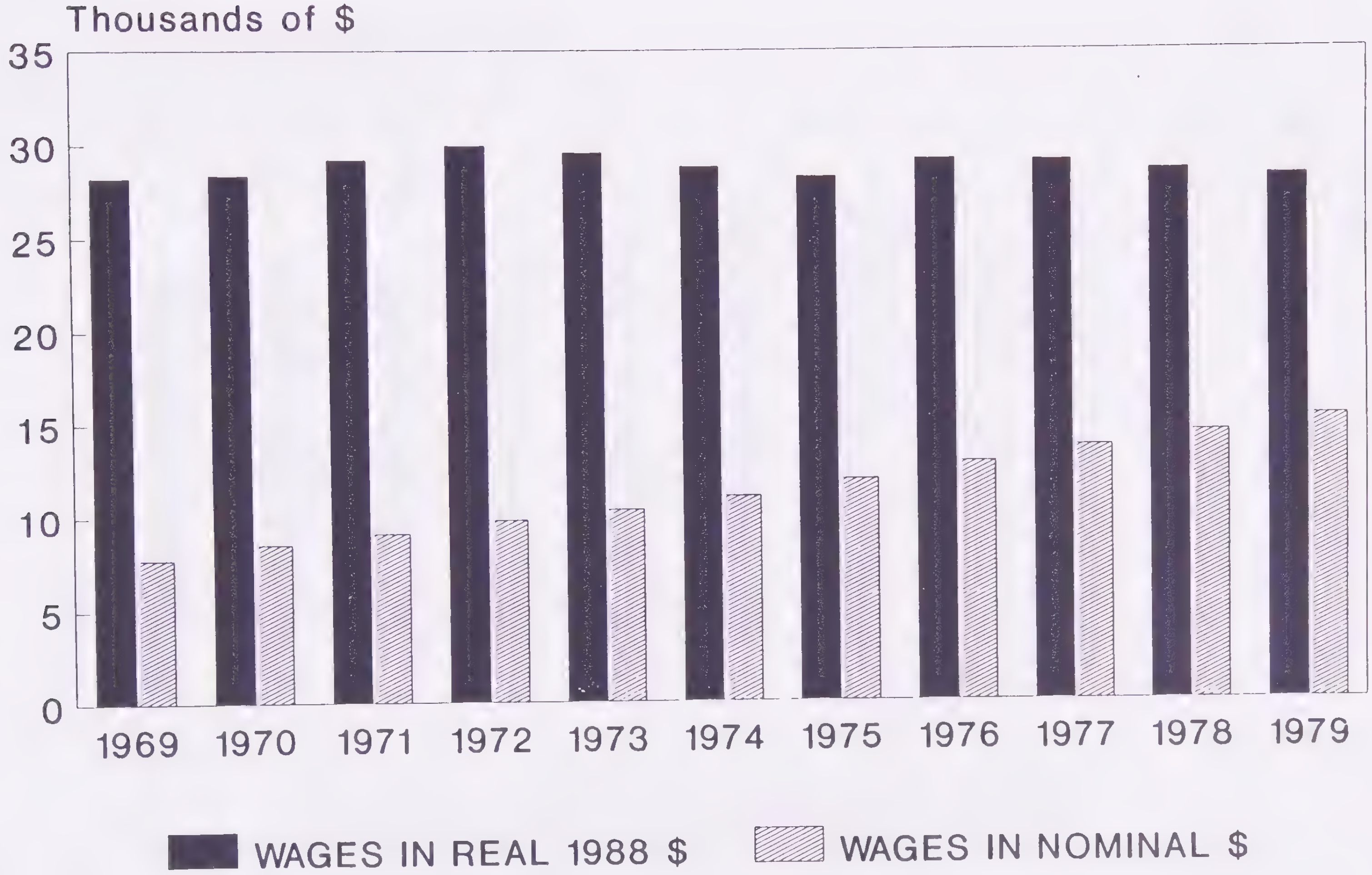
BAY AREA CPI

IMPACT OF 1974-1975 RECESSION



SOURCE: ABAG, Bureau of Census

NOMINAL VS REAL WAGES IN THE 1970S
BAY AREA



SOURCE: ABAG; BEA

Employment Impact
1974-75 Recession

- Overall impact minimal

- Selected sectors affected

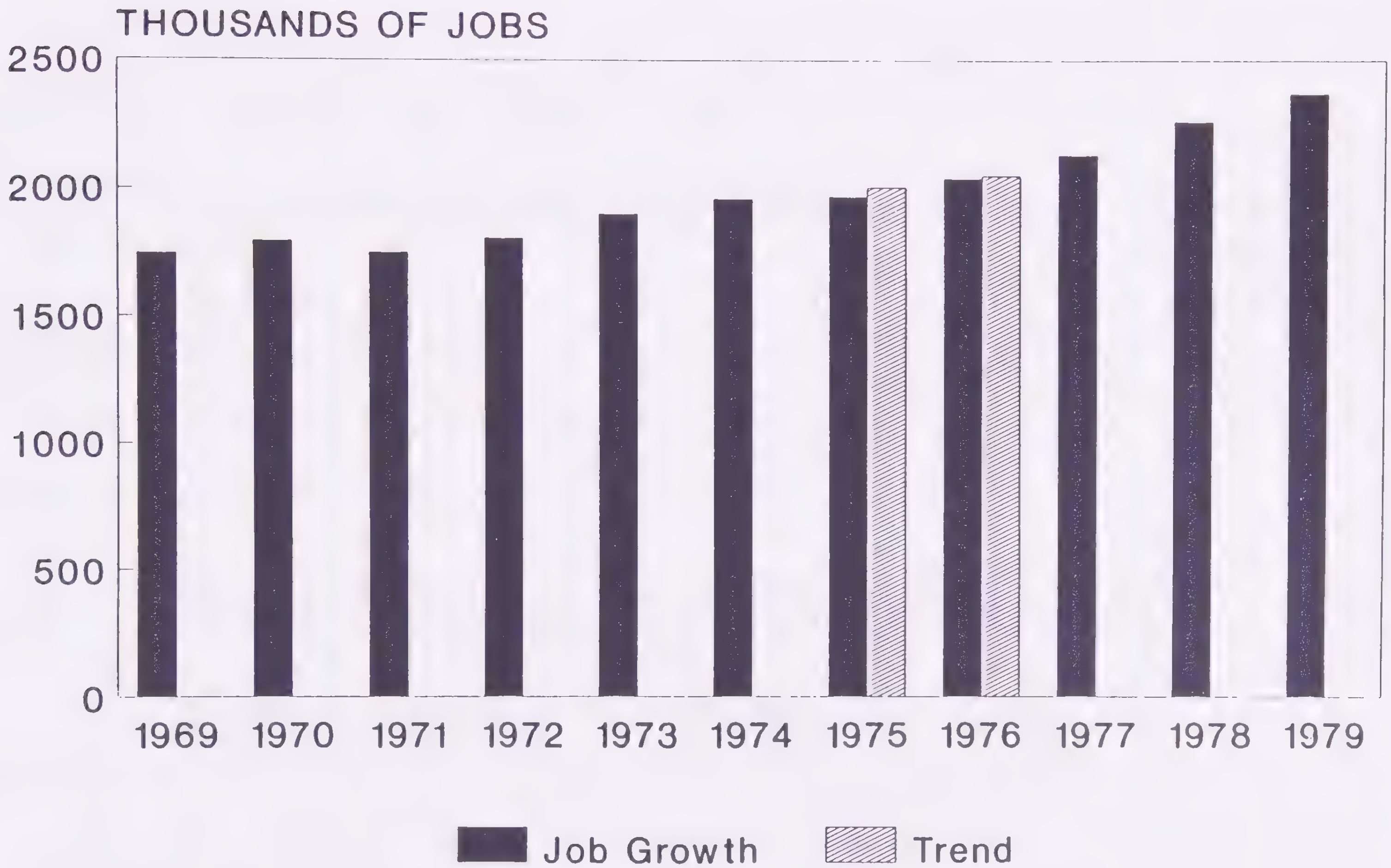
  - Manufacturing
    loss of 21,700 jobs

    - Electronics
    - Instruments
    - Apparel

  - Transportation, Communications and Utilities
    loss of 4,400 jobs

    - Communications

TOTAL BAY AREA EMPLOYMENT
1974-1975 RECESSION



ABAG; EDD

Counties Hardest Hit*
Net Loss in Employment

Alameda County — 4,700 Total Jobs

<u>Sector Losses</u>	
Construction	1,800 jobs
Manufacturing	7,900 jobs
Transportation, Communications and Utilities	2,300 jobs

Santa Clara County — 2,700 Total Jobs

<u>Sector Losses</u>	
Construction	3,500 jobs
Manufacturing	9,800 jobs
Transportation, Communications and Utilities	600 jobs

* During 1974-75 Recession

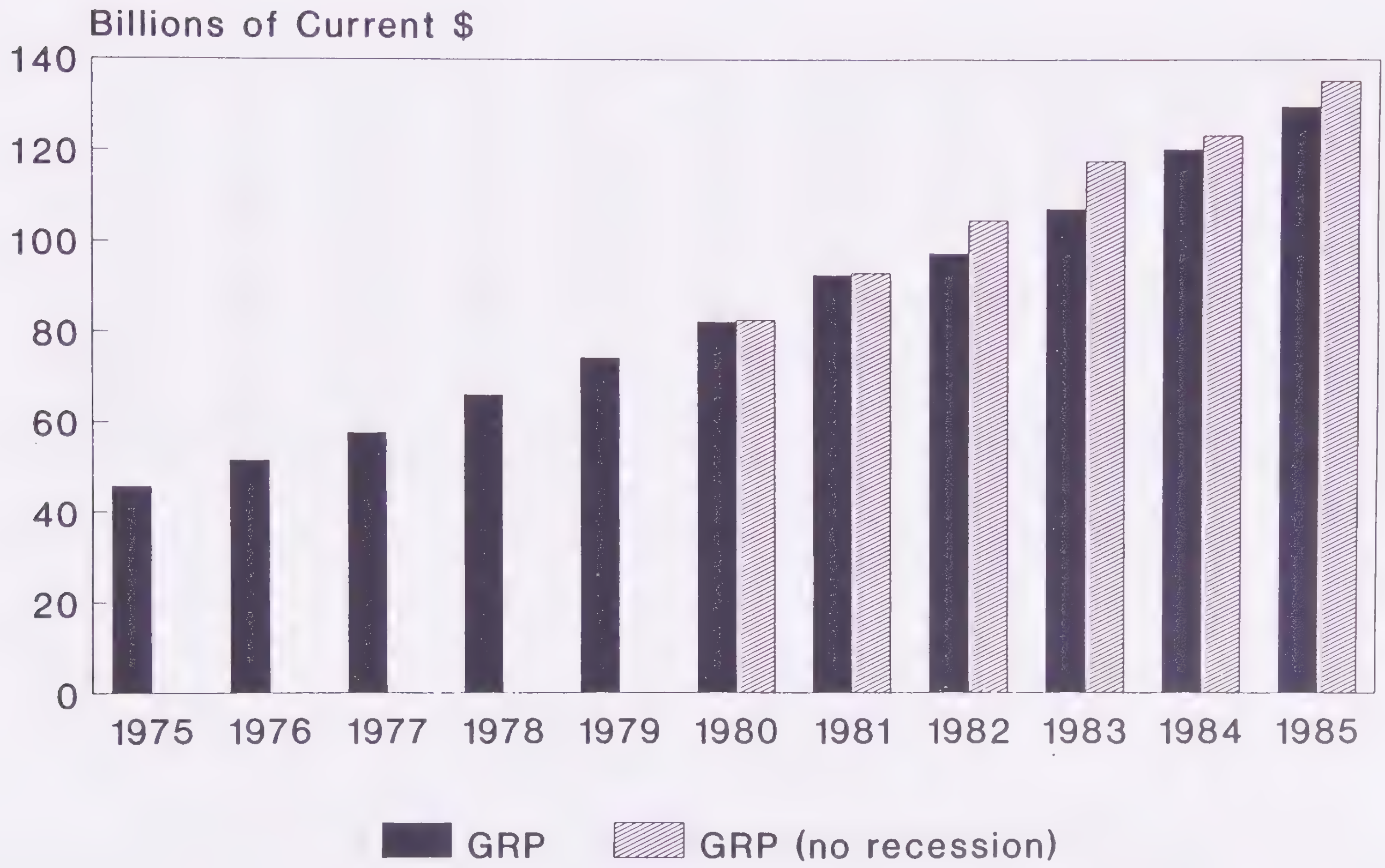
Overall Impact of 1974-75 Recession

- GRP — constant 1988 dollars
  $7.2 billion loss from a potential of $113.9 billion
- Real wages fell by 1.9%
- Potential job loss — 34,100
- Overall impact — minimal
- Long-term impact — left inflation at a high level

1981-82 Recession

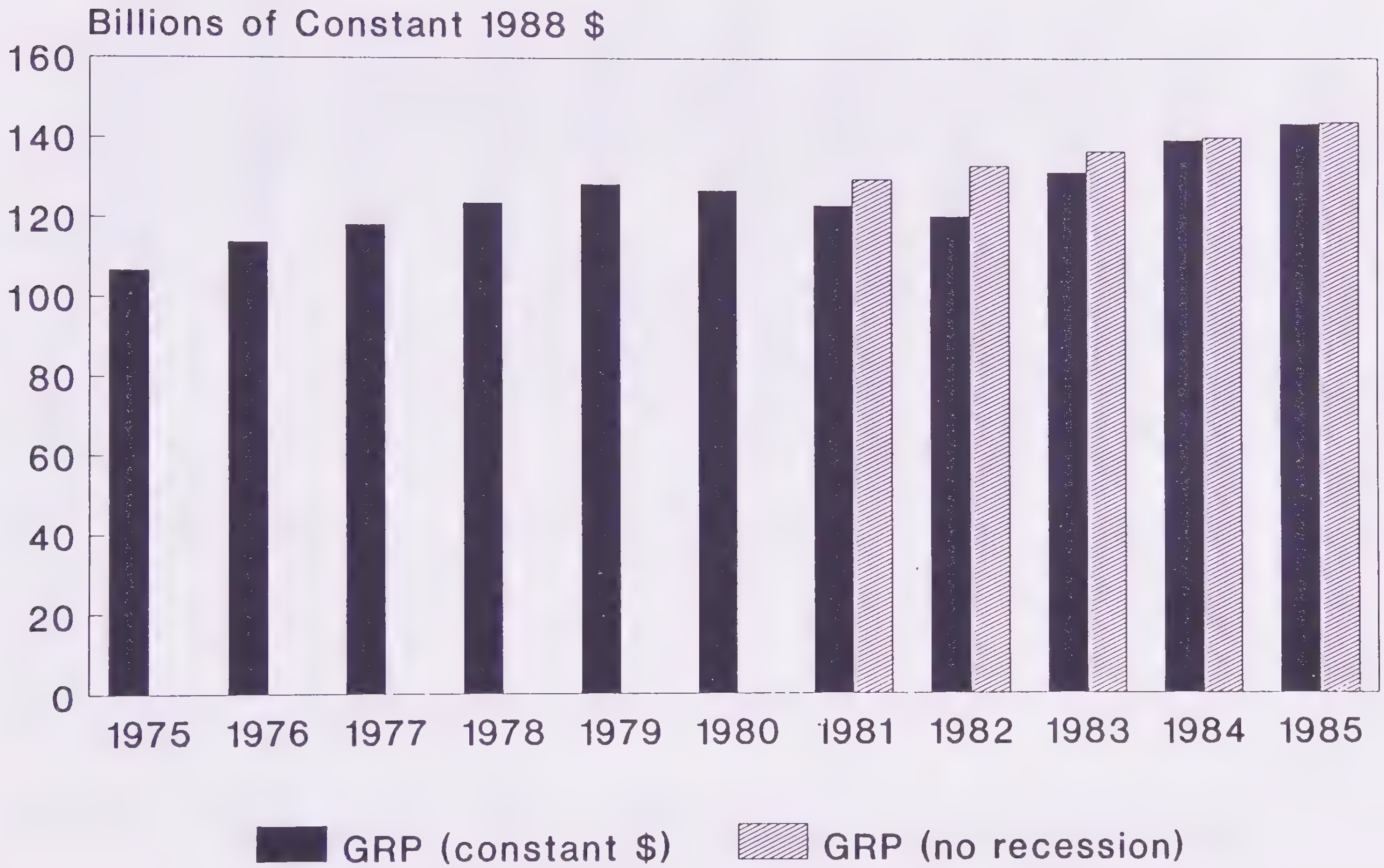
Cause:	Interest rate induced Rapid rise in inflationary pressures
Length:	1-1/2 years

GROSS REGIONAL PRODUCT
IMPACT OF 1981-1982 RECESSION



SOURCE: ABAG

GROSS REGIONAL PRODUCT
IMPACT OF 1981-1982 RECESSION



SOURCE: ABAG

BAY AREA GRP LOSS FROM RECESSION
CONSTANT 1988 $

ESTIMATED GRP LOSS FROM 1974-1975 RECESSION

1974---$ 3.6 billion
1975---$ 7.2 billion
1976---$ 3.8 billion
1977---$ 5.7 billion
1978---$ 5.4 billion

ESTIMATED GRP LOSS FROM 1981-1982 RECESSION

1981---$ 6.6 billion
1982---$ 12.7 billion
1983---$ 5.1 billion
1984---$ 0.6 million
1985---$ 0.15 million

NOTE: Loss reflects estimated growth minus actual growth

SOURCE: ABAG

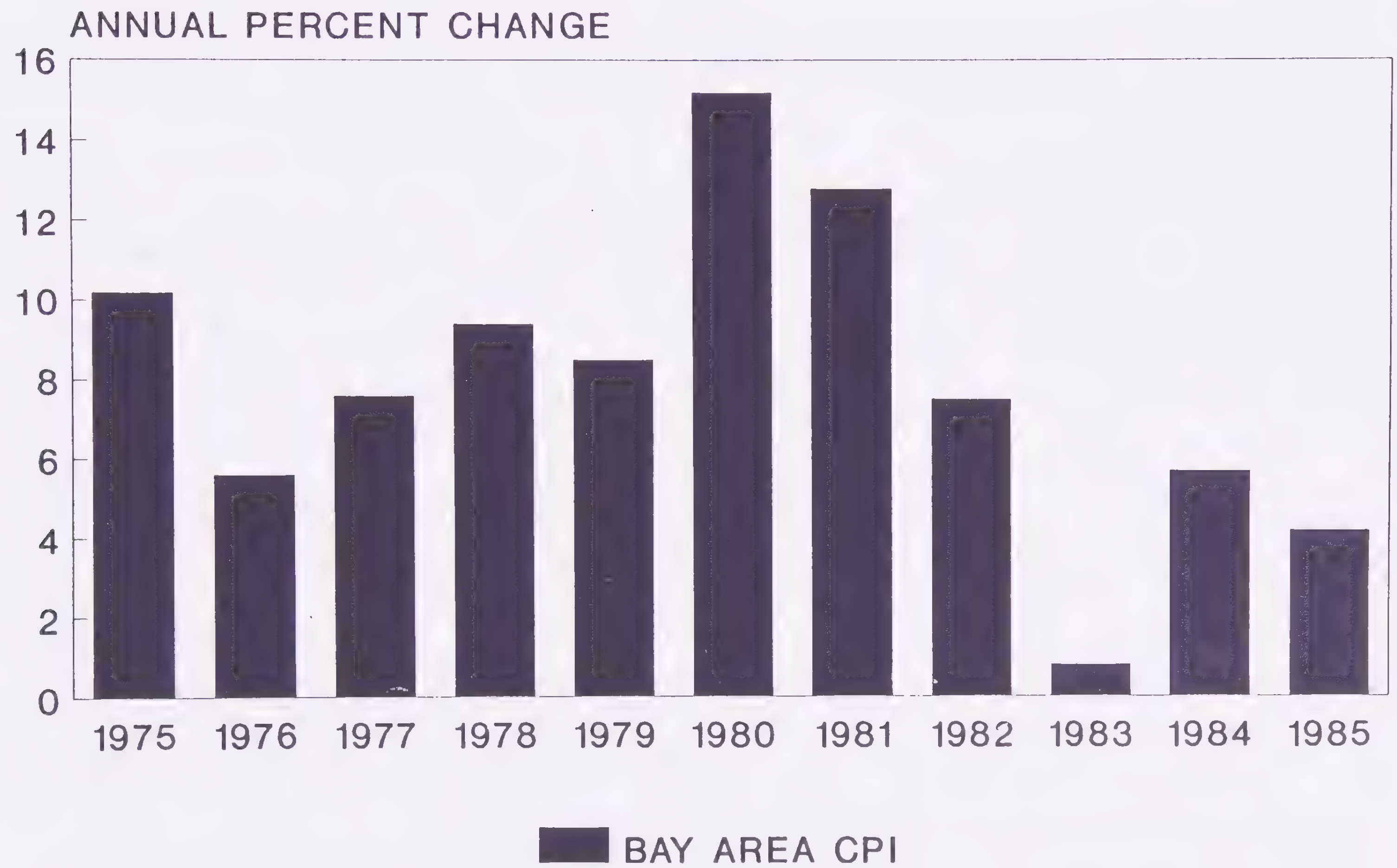
CPI and Wage Impacts

- Less than 1% increase in CPI in 1983
  - Substantially lower inflation throughout 1980's

- Real wages fell, but recovered rapidly
  - 6.5% real increase in 1983

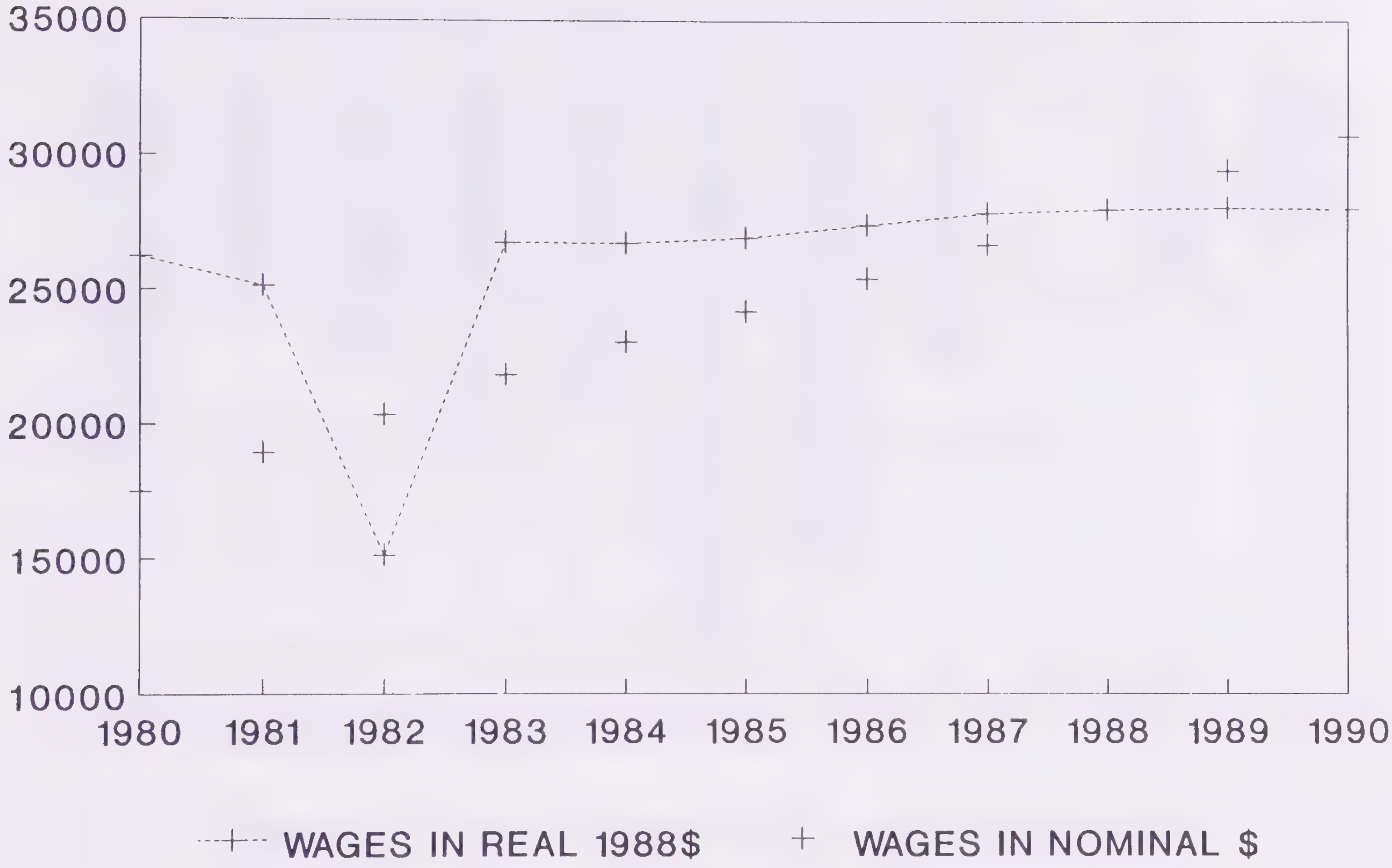
- Real wage trend is upward, but by 1990 still only 93% of the high level reached in 1972

BAY AREA CPI
IMPACT OF 1981-1982 RECESSION



SOURCE: ABAG

NOMINAL VS REAL WAGES IN THE 1980S
BAY AREA

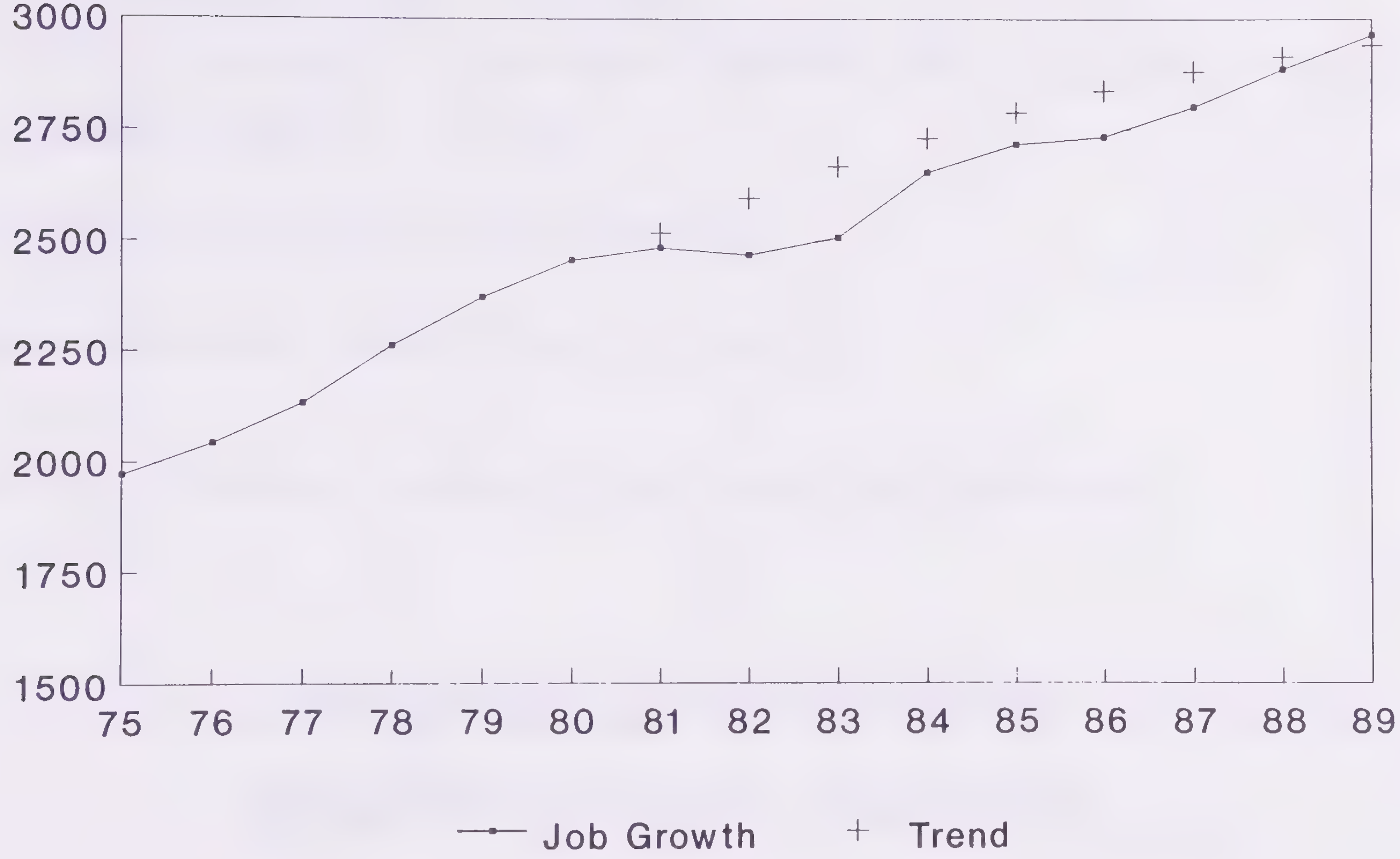


SOURCE: ABAG; BEA

Employment Impact
1981-82 Recession

- Overall moderate impact, but more widespread
- Slow recovery to job growth trend
  - Regional sectors most affected:
    - Construction — 7,900
    - Transportation, Communications and Utilities — 4,600
    - Wholesale trade — 4,500

TOTAL BAY AREA EMPLOYMENT
1981-1982 RECESSION



SOURCE: ABAG; EDD

Counties Hardest Hit*
Net Loss in Employment

Alameda County — 11,400 Total Jobs

Sector Losses	
Construction	2,000 jobs
Manufacturing	8,300 jobs
Wholesale Trade	800 jobs
Retail Trade	900 jobs
Government	1,400 jobs

San Francisco County — 10,000 Total Jobs

Sector Losses	
Transportation, Communications, and Utilities	2,000 jobs
Wholesale Trade	1,500 jobs
Retail Trade	900 jobs
Services	2,300 jobs
Business Services	*3,300 jobs*

* During 1981-82 Recession

Counties Hardest Hit*
Net Loss in Employment

San Mateo County — 5,900 Jobs	
Construction	2,300 jobs
Manufacturing	1,200 jobs
Transportation, Communications, and Utilities	1,100 jobs
Wholesale Trade	600 jobs
Retail Trade	200 jobs
Government	600 jobs
Sonoma County —600 Jobs	
Construction	800 jobs
Manufacturing	100 jobs

* During 1981-82 Recession

Overall Impact of 1981-82 Recession

- GRP — constant 1988 dollars
  $6.6 billion loss in 1981 from a potential of $129 billion
  $12.7 billion loss in 1982 from a potential of $133 billion

- Real wages fell 4.2% from the 1980 level by 1982

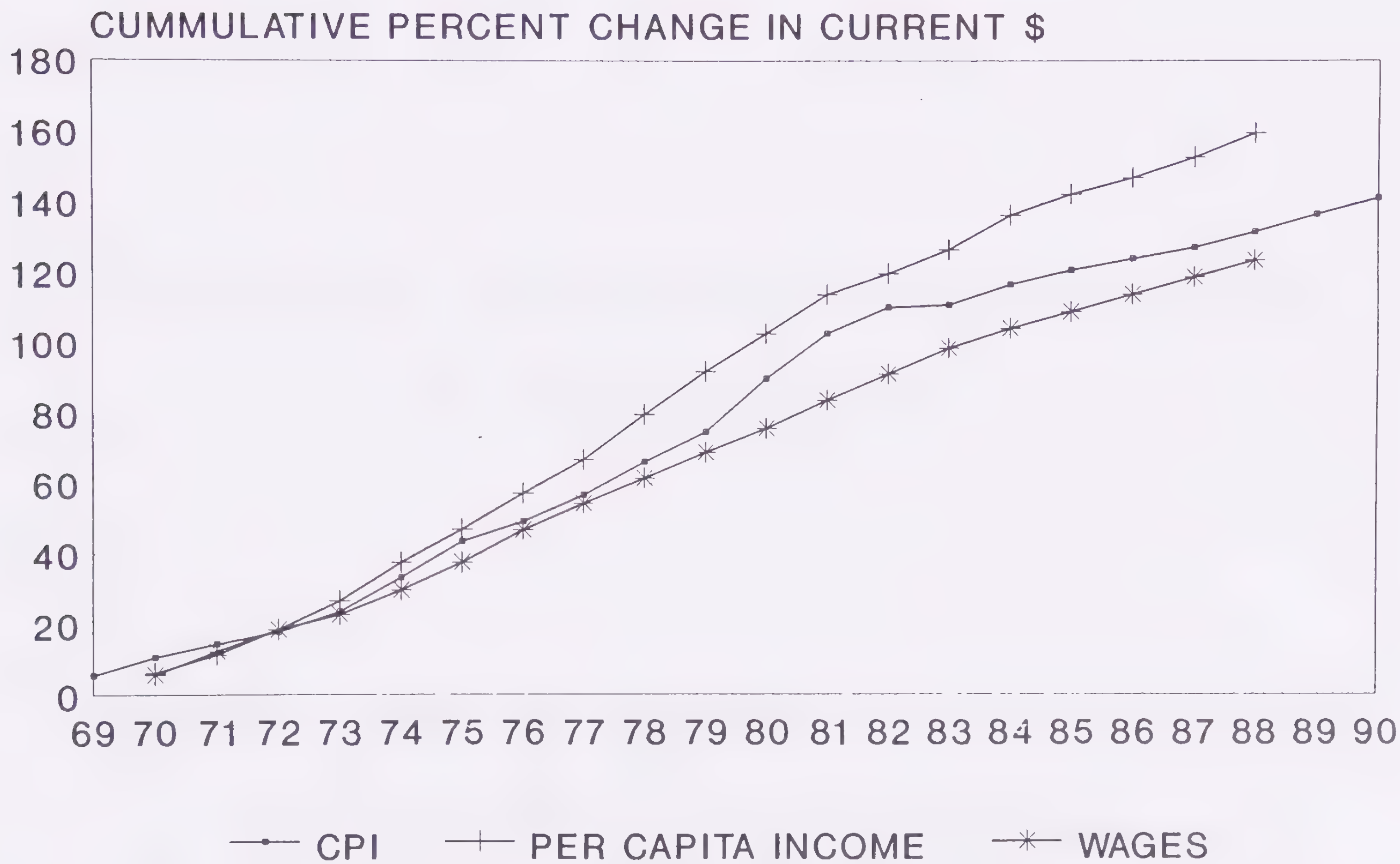
- Potential job loss — 161,800 jobs over two years

- Overall impact — moderate

- Long-term impact — altered Bay Area economic trends

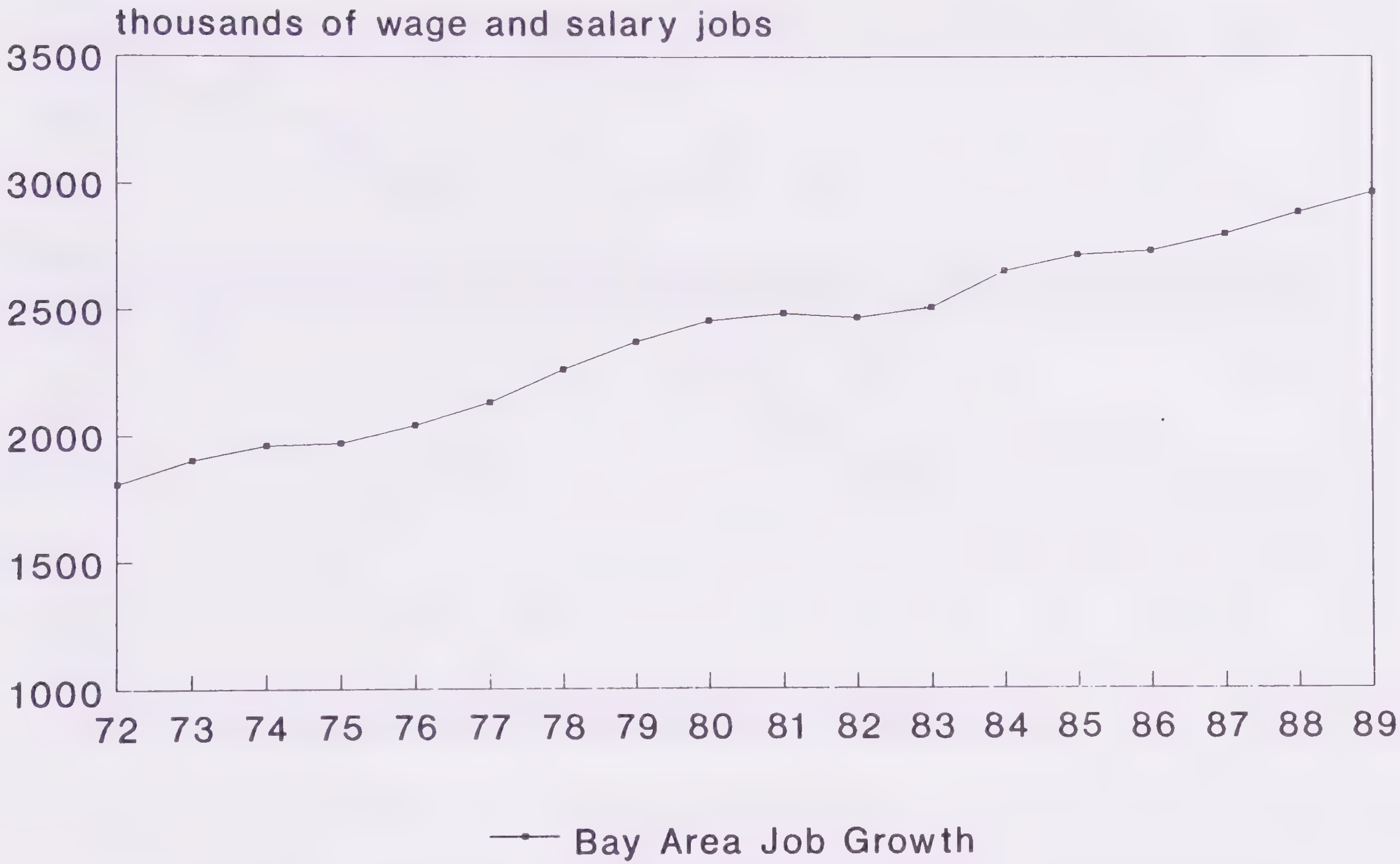
Long-term Economic Problems

BAY AREA ECONOMIC TRENDS
1969-1990



SOURCE: ABAG; BEA

CHANGING TRENDS
SLOWING OF JOB GROWTH ?



SOURCE: ABAG; EDD

Changing Regional Job Trends in the 1980's

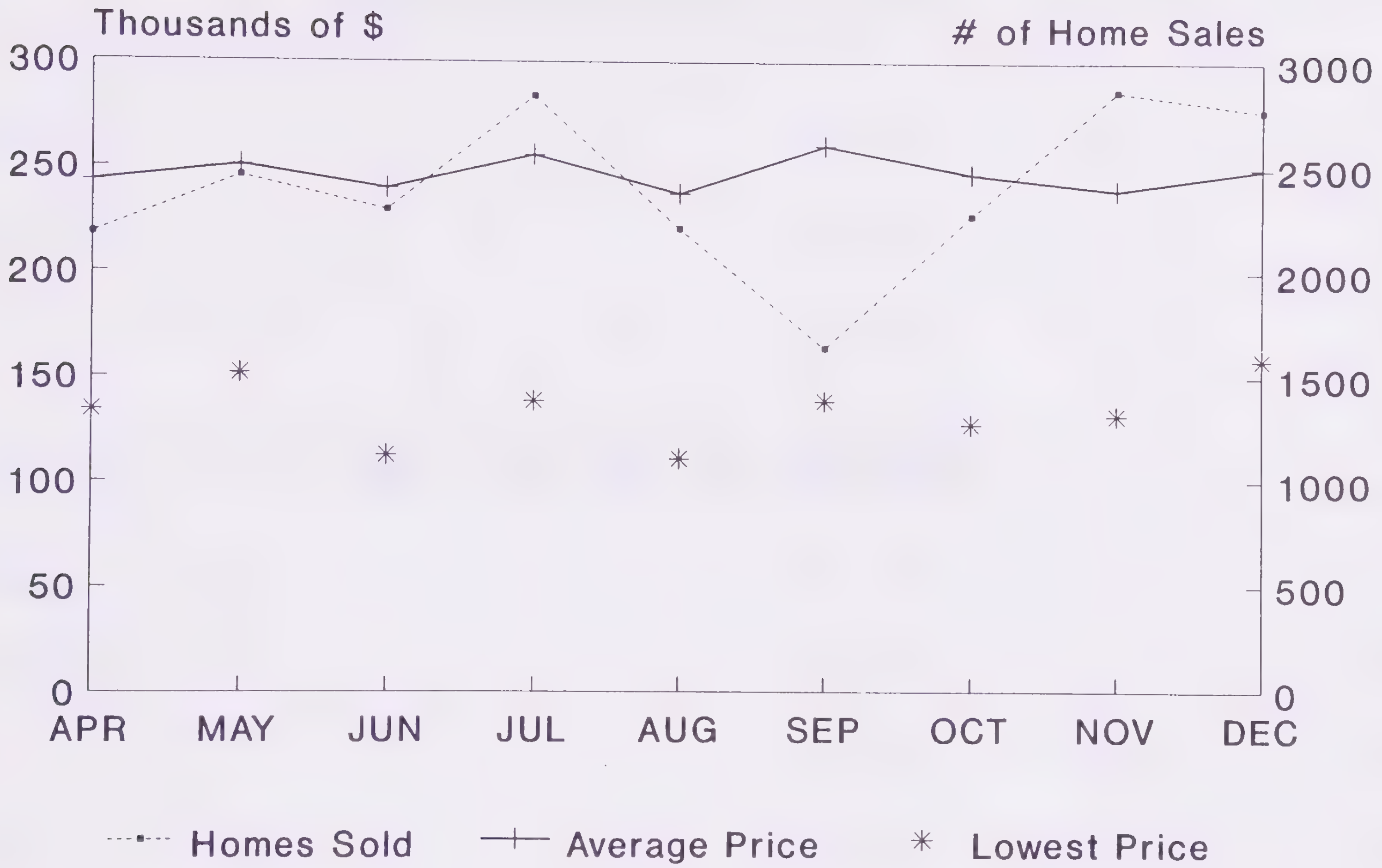
Winners and Losers

County	Expected Job Growth in 1980-89 Period Based Upon 1972-79 Share of Growth	Actual Job Growth	Gain/Loss
Alameda	57,300	108,200	50,900
Contra Costa	45,500	91,300	45,800
Marin	18,400	21,000	2,600
Napa	7,900	10,900	3,000
San Francisco	76,900	18,500	-58,400
San Mateo	47,400	40,400	-7,000
Santa Clara	210,500	151,600	-58,900
Solano	14,900	23,600	8,700
Sonoma	29,100	42,400	13,300
Job Growth in Region 1980-89	**507,900**	**507,900**	—

Source: ABAG

A Look at 1990

BAY AREA HOME SALES
SELECTED AREA SAMPLE



REM Reports,Inc., ABAG

Overall Impact of Oil Price Rise on Bay Area CPI for 1990

With Oil Price Rise	Without Oil Price Rise
4.5%	4.2%

Source: ABAG.

The Forces Driving Employment Growth in the Bay Area
(Real Growth)

	1986	1987	1988	1989	1990
Gross Regional Product	1.4%	3.3%	4.4%	3.2%	2.5%
Gross Exports	-1.1%	8.0%	7.2%	5.0%	3.9%
Personal Consumption Expenditures	1.9%	1.0%	2.3%	1.3%	1.6%
Capital Formation	3.8%	1.8%	2.9%	2.6%	2.6%
Government Purchase	1.0%	1.4%	1.6%	1.6%	1.6%

Source: ABAG.

Average Household Income in Bay Area Counties for 1985, 1990 and 1991 (in current dollars)

County	1985	1990	Annualized % Increase 1985-90	1991	% Increase 1990-91
Alameda	34,000	44,000	5.3%	46,100	4.8%
Contra Costa	42,100	54,500	5.3%	57,300	5.1%
Marin	51,400	68,900	6.0%	72,800	5.7%
Napa	34,200	44,200	5.2%	46,500	5.2%
San Francisco	34,100	45,300	5.8%	47,700	5.3%
San Mateo	43,600	56,800	5.4%	59,600	4.9%
Santa Clara	43,700	57,200	5.5%	59,500	4.0%
Solano	31,800	40,900	5.1%	43,000	5.1%
Sonoma	32,900	41,700	4.9%	44,000	5.5%
Region	38,900	50,700	5.4%	53,200	4.9%

Source: ABAG, income based upon Census definition.

Job Growth in Bay Area in 1990

County	Growth Estimate	Long-term Trend Analysis
Alameda	18,900	20,500
Contra Costa	11,700	11,800
Marin	1,400	2,000
Napa	1,900	1,500
San Francisco	2,500	7,900
San Mateo	4,900	4,800
Santa Clara	1,000	16,000
Solano	3,800	3,300
Sonoma	9,100	5,300
Region	55,200	73,100

Note: Trend analysis implies using one of the following statistical techniques (n^{th} order regression, linear regression, exponential regression or geometric regression) to estimate long-term job trends for each county. Time series cover 1972-1989. Data source EDD.

Evaluating Last Year's Forecast

Inflation Rate Forecast for 1990	4.7%
Average Inflation Rate for 1990	4.5%
Job Forecast for 1990 in Bay Area	57,200
Estimated Job Growth for 1990 in Bay Area	55,200

Source: ABAG.

Evaluating Job Forecast By County

County	1990 Forecast	1990 Estimate
Alameda	12,700	18,900
Contra Costa	9,000	11,700
Marin	1,700	1,400
Napa	1,500	1,900
San Francisco	4,800	2,500
San Mateo	6,200	4,900
Santa Clara	15,000	1,000
Solano	3,100	3,800
Sonoma	3,200	9,100
Region	57,200	55,200

Source: ABAG, ***1990 Forecast*** completed December 1989, ***1990 Estimate*** completed January 1991 from monthly series.

Evaluating Job Growth By Sector

Sector	1990 Forecast	1990 Estimate
Construction	1,300	6,700
Manufacturing	5,600	1,300
Transportation, Communication, and Utilities	2,800	5,700
Wholesale Trade	2,900	2,500
Retail Trade	9,000	7,000
Finance, Insurance, and Real Estate	1,500	2,500
Services	29,300	31,200
Business Services	*13,500*	*9,600*
Government	4,800	-1,700
Total	57,200	55,200

Source: ABAG.

Bay Area Economic Forecast Assumptions

Comparison of Bay Area CPI Increase and Wage Increase in Current Dollars

		Wage Increase	CPI
Historical	1986	5.0%	3.0%
	1987	5.0%	3.4%
	1988	5.0%	4.4%
	1989	5.2%	4.9%
Estimate	1990	4.3%	4.5%
Forecast	1991	3.9%	4.3%

Source: Bureau of Economic Analysis and Bureau of Labor Statistics (Historical), ABAG (Estimate and Forecast).

Bay Area Inflation Assumption

		Consumer Price Index (CPI)	Rental Housing Inflation Index
Historical	1986	3.0%	8.3%
	1987	3.4%	4.6%
	1988	4.4%	4.3%
	1989	4.9%	3.9%
Estimate	1990	4.5%	4.8%
Forecast	1991	4.3%	4.8%
	1986-1990	18.4%	25.9%

Source: Bureau of Labor Statistics (Historical), ABAG (Estimate and Forecast).

1991 Assumptions
(Real Growth)

	Increase
Gross Regional Product	1.9%
Gross Exports	3.2%
Personal Consumption Expenditures	.8%
Capital Formation	1.6%
Government Purchase	1.5%

Source: ABAG, estimated GRP for 1990 was $182,484,000,000 in current dollars for Bay Area.

General Economic Outlook

1991

Inflation ↑		Recession ↓	
Yes	40%	Yes	50%
No	60%	No	50%

1992

Inflation ↑		Recession ↓	
Yes	70%	Yes	40%
No	30%	No	60%

Impacts

1. Trade deficit and budget deficit on consumer confidence
2. Federal Reserve Policy may not be able to control as effectively as in the past
3. Financial Institution, particularly Savings and Loans on budget deficit
4. Debt
5. "Muddle Through Theory"

Source: ABAG.

What's Ahead?

Regional Job Forecast

Sector	1991 Forecast	1990 Estimate
Construction	-1,300	6,700
Manufacturing	3,000	1,300
Transportation, Communication, and Utilities	2,800	5,700
Wholesale Trade	1,500	2,500
Retail Trade	3,900	7,000
Finance, Insurance, and Real Estate	2,000	2,500
Services	21,700	31,200
Business Services	*6,900*	*9,600*
Government	1,800	-1,700
Total	35,400	55,200

Source: ABAG.

County Job Growth
1990 and 1991 Comparison

County	1991 Forecast	1990 Estimate
Alameda	10,900	18,900
Contra Costa	7,300	11,700
Marin	1,000	1,400
Napa	900	1,900
San Francisco	1,500	2,500
San Mateo	2,900	4,900
Santa Clara	3,900	1,000
Solano	2,300	3,800
Sonoma	4,700	9,100
Region	35,400	55,200

Source: ABAG.

Real Average Wages for Bay Area Workers

1988 Constant Dollars

Historical	1972	$28,244
	1980	$26,242
	1986	$27,432
	1987	$27,895
	1988	$28,028
Estimate	1989	$28,160
	1990	$28,100
Forecast	1991	$27,980

Source: Bureau of Economic Analysis (Historical), ABAG (Estimate and Forecast).

Average Household Income in Bay Area Counties for 1985, 1990 and 1991 (in current dollars)

County	1985	1990	Annualized % Increase 1985-90	1991	% Increase 1990-91
Alameda	34,000	44,000	5.3%	46,100	4.8%
Contra Costa	42,100	54,500	5.3%	56,900	4.4%
Marin	51,400	68,900	6.0%	72,800	5.7%
Napa	34,200	44,200	5.2%	46,500	5.2%
San Francisco	34,100	45,300	5.8%	47,700	5.3%
San Mateo	43,600	56,800	5.4%	59,600	4.9%
Santa Clara	43,700	57,200	5.5%	59,500	4.0%
Solano	31,800	40,900	5.1%	43,000	5.1%
Sonoma	32,900	41,700	4.9%	44,100	5.8%
Region	38,900	50,700	5.4%	53,200	4.9%

Source: ABAG, income based upon Census definition.

Potential Problems

- High technology industries are in increasingly competitive markets with narrowing growth expectations

- National economic policies and international economic instability could affect local economies

- Tight labor supply for skilled workers

- Local government policies and inflationary land cost

- Lack of retraining programs affects labor forces ability to adjust to new industries

Source: ABAG.

1991 Forecast

- Short recession
- Stagnation in growth
- Jump in Bay Area inflation in last part of year
- Jump in interest rates in fourth quarter of year
- Local government fiscal crisis worsens

TOPICS

- Loma Prieta Earthquake
- Income Analysis and Forecasts
- Retail Sales Analysis and Forecasts
    - Review of 1980 Recession
    - Decentralization of Sales

The Loma Prieta Earthquake of October 1989
had little lasting impact on
the San Francisco Bay Region's economy

Fourth Quarter Taxable Sales Growth From 1988 to 1989

County	1989 Fourth Quarter Growth
Alameda	4.8%
San Francisco	-0.2%
San Mateo	7.8%
Santa Clara	6.9%
Region	6.3%
California	7.7%

Source: Board of Equalization; ABAG.

Fourth Quarter Total Taxable Sales Distribution Among San Francisco Bay Region Counties

County	1988	1989
Alameda	20.7%	20.4%
Contra Costa	11.5%	11.5%
Marin	3.7%	3.8%
Napa	1.3%	1.5%
San Francisco	14.1%	13.2%
San Mateo	12.2%	12.4%
Santa Clara	27.6%	27.7%
Solano	3.4%	3.7%
Sonoma	5.5%	5.8%
Region	100.0%	100.0%

Source: Board of Equalization; ABAG.

Assumptions Underlying this Forecast

- The ongoing war with Iraq will last appx 9 - 14 weeks
- Crude oil prices will decrease from current rates in the latter part of 1991
- The national economy has been in a slowing trend that will pick up in the latter part of 1991
- Military spending will continue to decrease as a result of warming U.S. - Soviet relations

Income
Analysis and Forecast

Average Annual Percent Growth
Total Personal Income
San Francisco Bay Region
1970-89

	Current Dollars	Inflation-adjusted Dollars
Region	9.2%	2.4%
California	10.0%	3.2%
United States	9.1%	2.6%

Source: ABAG.

Factors Affecting Income Growth

- Employment Levels
- Real Wages
- Consumer Price Index (a.k.a. inflation)

Total Personal Income Growth
San Francisco Bay Region, 1990-92
(Current Dollars)

	1990	1991	1992
Percentage Growth in:			
Employment	1.9%	1.2%	1.7%
Wages per employee	4.3%	3.9%	5.6%
CPI	4.5%	4.3%	4.9%
Personal Income	**7.0%**	**6.3%**	**7.4%**

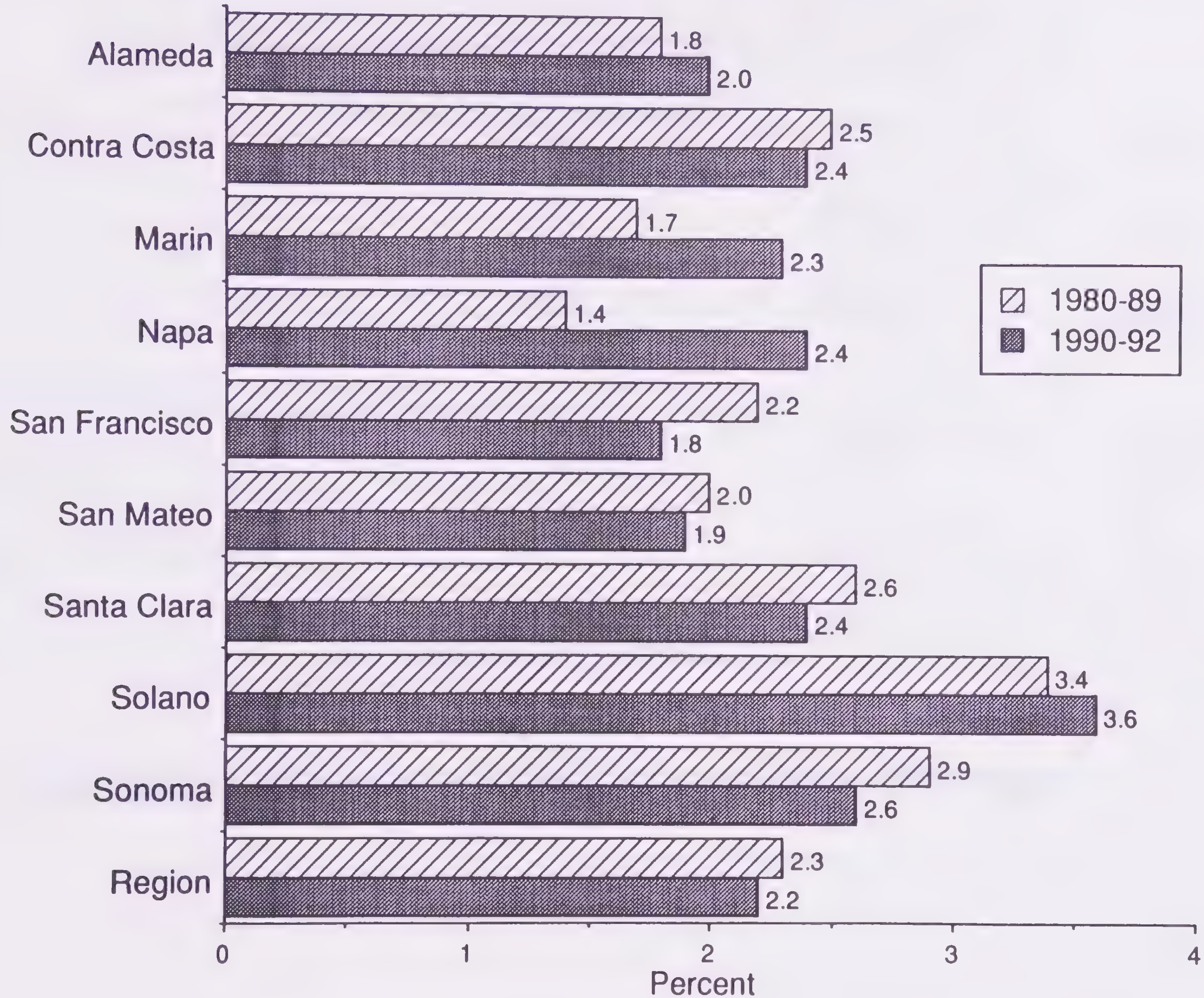
Source: ABAG.

Comparison of Personal Income Growth
1990-92
(Current Dollars)

	1990	1991	1992
Region	7.0%	6.3%	7.4%
California	7.1%	6.0%	7.1%
United States	6.0%	5.0%	6.1%

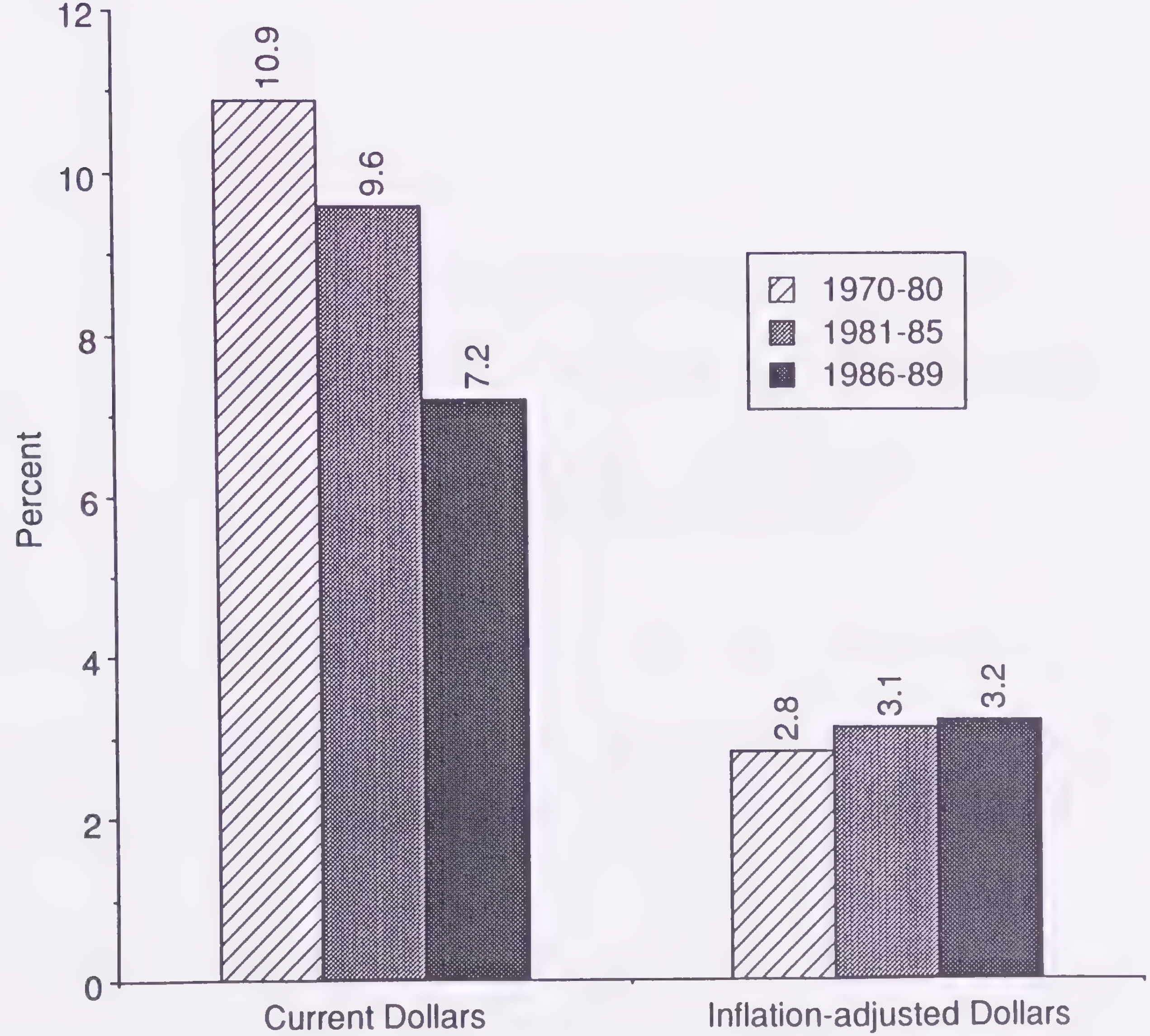
Source: Commission of State Finance; DRI; ABAG.

Average Annual Percent Growth in Total Personal Income 1980-92, (Inflation-adjusted Dollars)



Source: ABAG.

Average Annual Percent Growth of Total Personal Income
San Francisco Bay Region, 1970-89



Source: ABAG.

Retail Trade
Analysis and Forecast

Significance of Retail Sales

- Approximately 65 percent of Total Taxable Sales
- Total Taxable Sales equalled $61 Billion in 1989
- Sales Taxes provide 22 percent of General Revenues to City Governments throughout the Bay Region

Factors Affecting Retail Sales

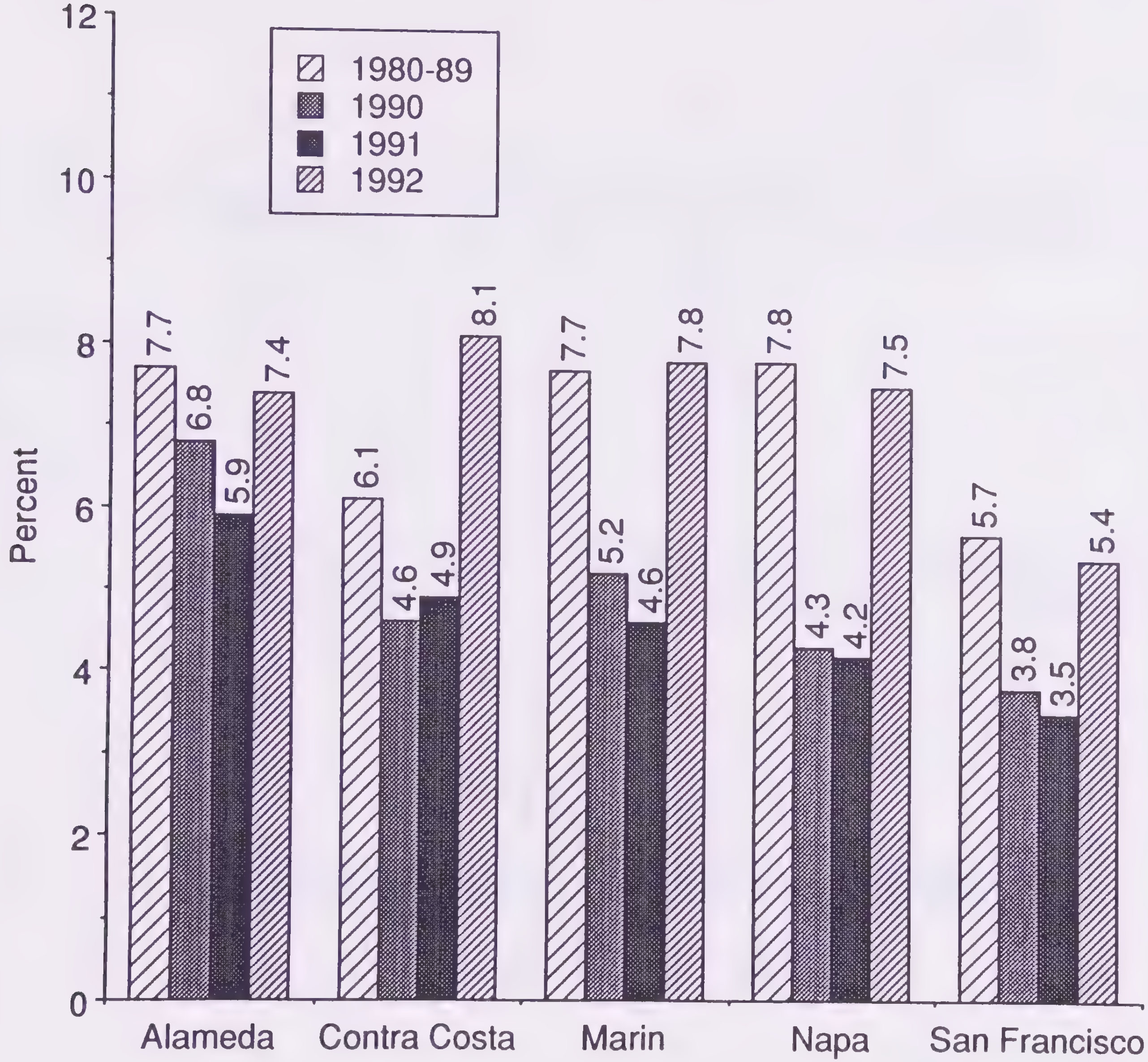
- Income
- Interest Rates
- Demographics
- Consumer Optimism
- National Economic Trends

Total Taxable Sales
San Francisco Bay Region
1980-92

	Total Dollars (in billions)	Annual Growth (current dollars)	Annual Growth (inflation-adjusted dollars)
1980-89		7.4%	2.2%
1990	65.0	5.9%	1.4%
1991	68.7	5.7%	1.2%
1992	74.3	8.2%	3.1%

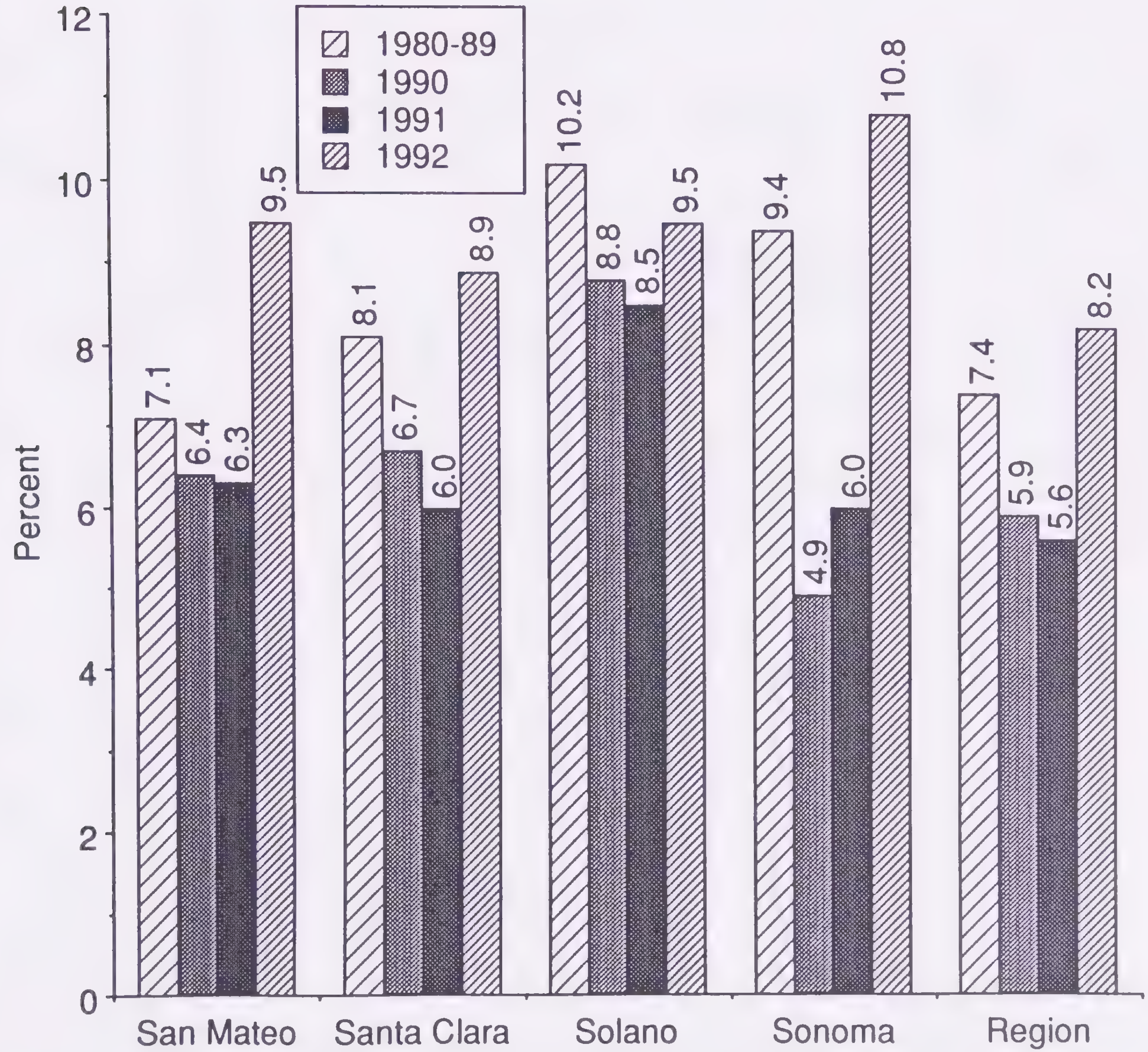
Source: ABAG.

Annual Percent Growth of Total Taxable Sales
San Francisco Bay Region, 1980-92



Source: ABAG.

Annual Percent Growth of Total Taxable Sales
San Francisco Bay Region, 1980-92



Source: ABAG.

Taxable Sales Classification

- Retail Stores

  Nondurable Goods
  - Apparel
  - General Merchandise
  - Specialty
  - Food
  - Restaurants and Bars
  - Service Stations

  Durable Goods
  - Home Furnishings
  - Building Materials
  - Auto Dealers

- Business and Professional Services

- All Other Outlets

Retail Stores

Nondurable

Apparel	(Women's apparel, Men's apparel, Family apparel, Shoes)
General Merchandise	(Limited-price variety, Department, Drug stores, Other)
Specialty	(Gifts and novelties, Sporting goods, Florists, Musical instruments, Stationery, Jewelry, Office and store supplies, Candy and tobacco, Other specialties)
Food	(Food stores selling all liquors, Other food stores, Packaged liquor stores)
Eating and Drinking	(Eating places, Drinking places)
Service Stations	

Durable

Home Furnishings	(Household and home furnishings, Household appliance dealers)
Building Materials	(Lumber and building materials, Hardware stores, Plumbing and electrical supplies, Paint, Glass and wallpaper)
Auto Dealers	(New and used motor vehicle dealers, Automotive supplies, Trailer, boat, cycle and plane dealers)

Business and Personal Services

(Hotels and motels, Automotive repair, Repair and hand trade, Clubs, Shoe repair, Morticians, Personal services shops and amusements)

All Other Outlets

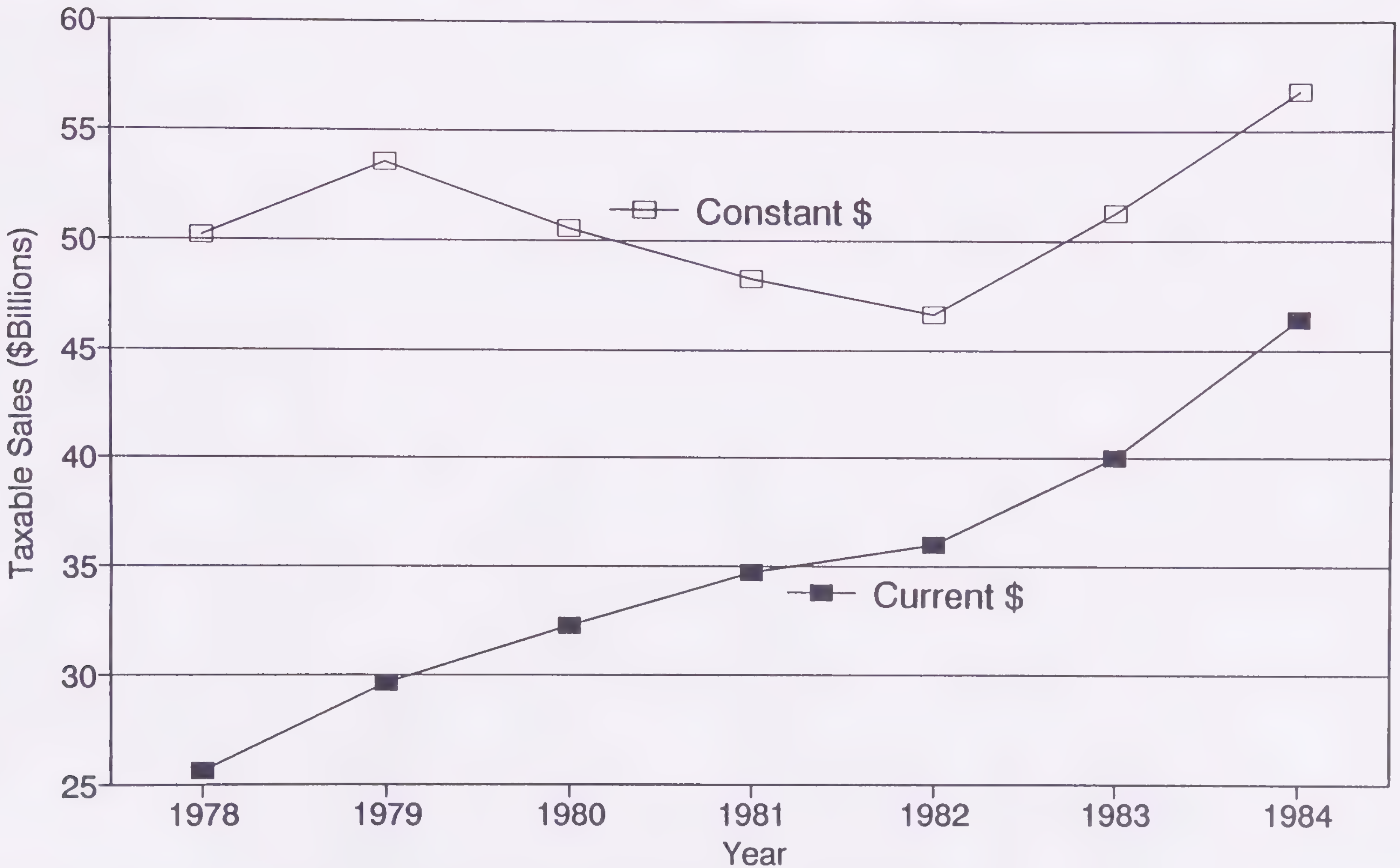
(Nonstore retailers, Temporary and part-time permittees, Occasional sales of autos/ boats, Cigarette vendors, Public utilities, Manufacturing/ Wholesale outlets)

Annual Percent Growth of Retail Store Sales
San Francisco Bay Region, 1980-92
(Current Dollars)

	1980-89	1990	1991	1992
Apparel	7.7	6.7	2.8	6.4
General Merchandise	8.0	7.9	7.6	8.2
Specialty	10.1	9.4	8.5	9.4
Food	4.7	5.2	4.3	4.8
Restaurants/Bars	7.2	7.4	6.8	7.4
Service Stations	-2.2	12.4	18.8	-17.4
Home Furnishings	8.7	4.7	3.8	8.3
Building Materials	8.7	5.7	3.8	10.5
Auto Dealers	8.7	2.2	3.0	10.4
Business/Personal Services	11.4	8.5	8.0	9.1
All Other Outlets	8.0	4.9	4.5	9.4
Inflation (Annual Average)	5.1	4.5	4.3	4.9

Source: ABAG.

Taxable Sales between 1978 and 1984
San Francisco Bay Region

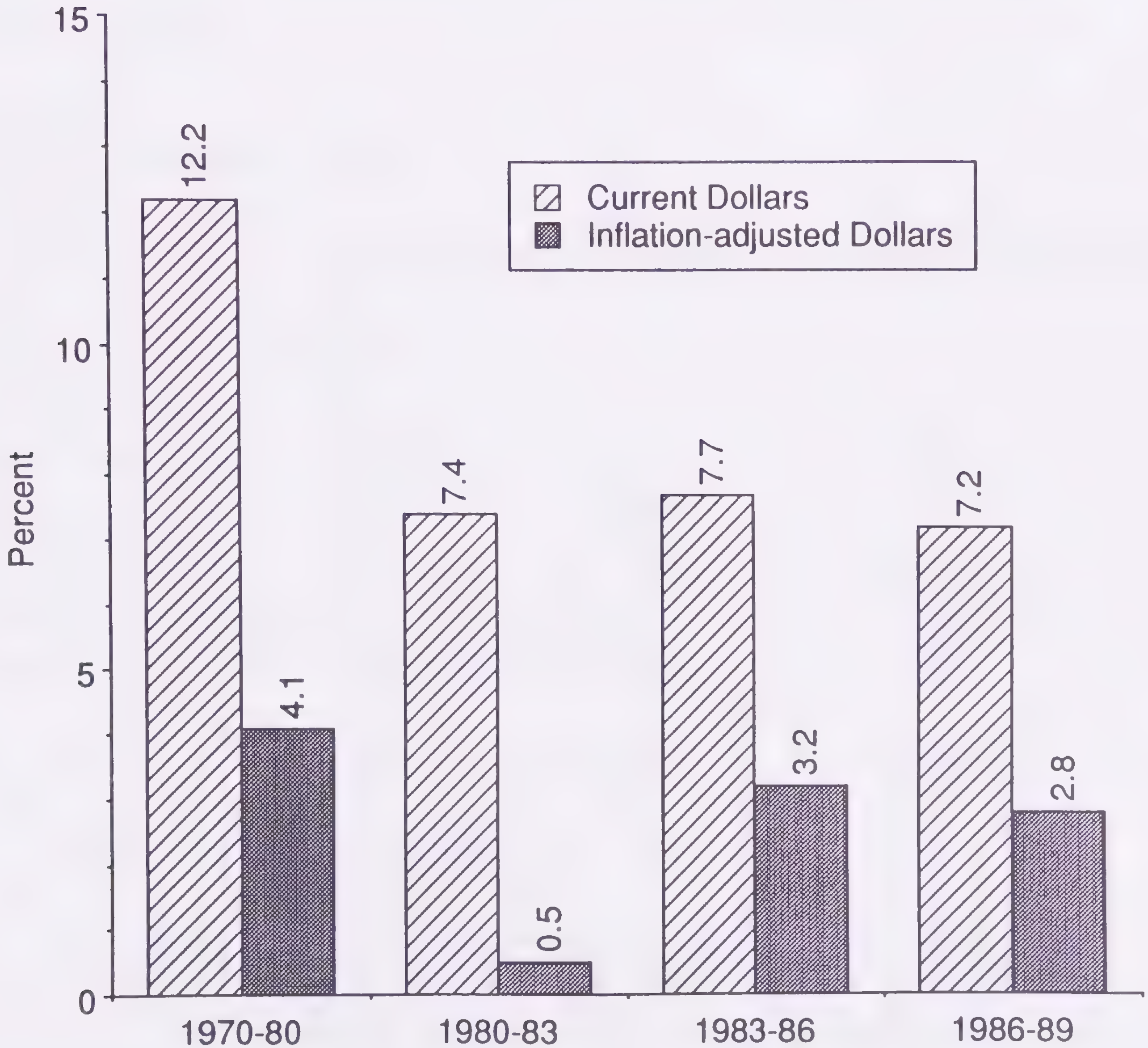


Annual Percent Change in Taxable Sales
San Francisco Bay Region, 1979-83
(Inflation-adjusted Dollars)

	1979	1980	1981	1982	1983
Apparel	2.3	-5.8	-3.4	0.7	4.5
General Merchandise	0.5	-4.7	-5.2	-2.4	9.4
Specialty	10.0	-0.6	0.0	3.1	15.1
Food	4.6	-8.2	6.4	-5.2	6.7
Restaurants/Bars	4.6	-4.3	-2.0	-0.4	7.9
Service Stations	23.0	10.7	-14.4	-18.4	-4.2
Home Furnishings	4.3	-10.6	-4.3	-4.6	19.4
Building Materials	6.4	-8.1	-17.3	-9.6	27.6
Auto Dealers	-4.2	-19.6	-4.9	0.8	24.1
Retail Stores	4.9	-5.7	-5.3	-4.0	11.7
Nondurables	*7.4*	*-1.5*	*-4.1*	*-4.4*	*7.1*
Durables	*-0.3*	*-15.1*	*-8.3*	*-2.8*	*24.0*
Business/Personal Services	5.5	-8.1	-0.3	0.4	16.0
All Other Outlets	11.2	-5.1	-3.4	-3.1	6.1
Total Sales	6.7	-5.6	-4.5	-3.6	10.2
Inflation	8.5	15.2	12.8	7.5	0.8

Source: ABAG.

Average Annual Percent Growth of Taxable Sales
San Francisco Bay Region, 1970-89



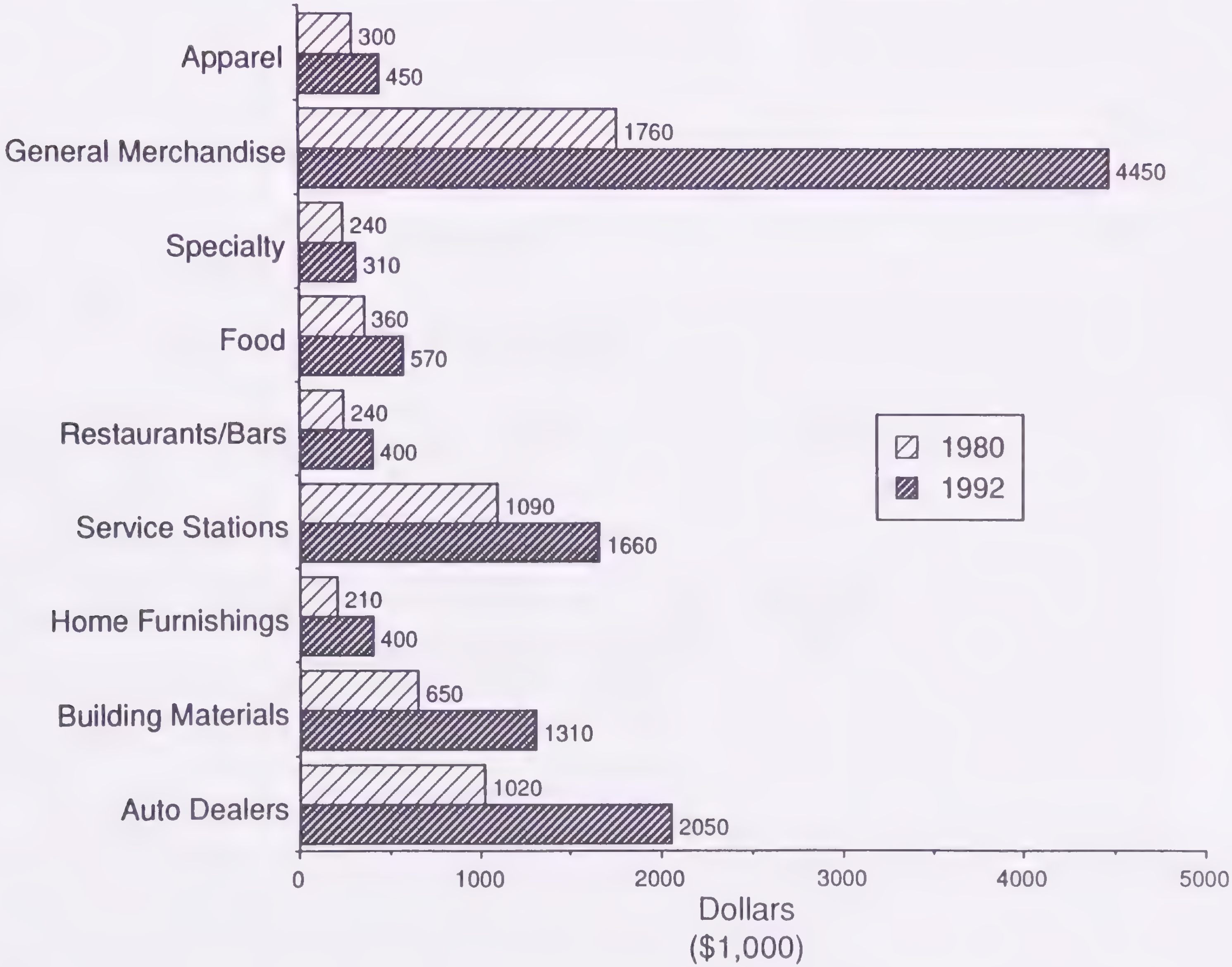
Source: Board of Equalization; ABAG.

Number of Retail Store Permits
San Francisco Bay Region, 1980-92

	1980	1992	Change
Apparel	3,720	5,700	53%
General Merchandise	2,030	2,030	0%
Specialty	10,480	25,510	143%
Food	5,850	6,340	8%
Restaurants/Bars	11,450	15,660	37%
Service Stations	3,110	1,850	-41%
TOTAL NONDURABLE	36,640	57,090	56%
Home Furnishings	4,920	6,440	31%
Building Materials	2,580	3,290	28%
Auto Dealers	3,170	3,860	22%
TOTAL DURABLE	10,670	13,590	27%

Source: Board of Equalization; ABAG.

Average Taxable Sales Per Retail Store Permit San Francisco Bay Region, 1980 and 1992 (in Thousands of Current Dollars)



Source: ABAG.

Factors Affecting Decentralization of Taxable Sales

- Location of Retail Establishments
- Population Growth
- Income Gains
- Infrastructure Development

Decentralization of Taxable Sales
San Francisco Bay Region
1970-92

County	1970	1980	1992
Alameda	23.6	20.2	20.7
Contra Costa	9.2	12.4	10.8
Marin	3.4	3.7	3.7
Napa	1.3	1.4	1.4
San Francisco	22.3	15.3	12.3
San Mateo	12.6	12.7	12.6
Santa Clara	21.3	26.7	28.8
Solano	2.5	2.9	3.9
Sonoma	3.8	4.9	5.8
Region	100.0	100.0	100.0

Source: Board of Equalization; ABAG.

WHICH WAY ARE WE HEADING?

Walter E. Hoadley
Senior Research Fellow
Hoover Institution

Delivered at the initial 1991 meeting of The Commonwealth Club of California, noon, Friday, January 4, Grand Ballroom, Hilton Hotel, San Francisco, California.

Happy New Year!!!

My presentation today poses some exceptional challenges. In fact, several of you have told me not to show up. Times could hardly be more uncertain. After 20 plus opening-of-the-year speeches to this distinguished club and nationwide audience, finding fresh ideas also gets progressively tougher.

Yet, The Commonwealth Club invitation keeps coming and so do you!! I am deeply appreciative.

As many of you know, I have long espoused a few forecasting principles which seem to be reinforced by ongoing events and help my batting average; e.g., it takes a "crisis" to change the status quo, strong "self-correcting" forces are always at work, and when in doubt "round up" on the future of America. The increasing scope and complexity of the U.S. and global economic and related problems now require far more than domestic economic research and analysis.

What can I say today that will be helpful and constructive? -- in times which are frequently described in such terms as chaotic, out of control, recession, and on the brink of war.

Which way are we heading?

My answer is -- near-term on the surface -- nowhere -- or at best sideways; but, if we will look beneath the surface, we'll detect a powerful persistent process rebuilding the strength and vitality of America and some other regions of the world -- injecting new economic and fiscal realism to insure a better future down the road.

The greatest present danger is paralyzing public fear arising out of uncertainty about what lies ahead. I sense an urgent need for a new perspective which focuses more on fundamentals as an antidote to minute by minute news developments, quick thinking and fast decisions. Let me offer a beginning.

Once again, I will eliminate any suspense by presenting my conclusions at the outset:

1) We face -- several (2 to 3 or more) years -- of generally flat economic performance amidst rising social tensions -- this is no ordinary business cycle.

2) Our immediate problem is to overcome an acute psychological recession as much or more than the much heralded economic recession.

3) My "Hoadley Hot-Line" economic numbers for 1991 are "0" (Real Growth) - "5-1/2" (Inflation) - "6-1/2" (Unemployment) - "1" (Range of Interest Rate Change).

4) Resumption of healthy and sustained growth across America will depend heavily upon how much progress we make in resolving at least four major challenges:

Reversing risk aversion, learning to share leadership, strengthening business-government relations, and tempering poverty and homelessness.

5) Don't panic -- America will be rebuilding on an ever-widening front; our personal choice is to have confidence and patience, play a solid part in the rebuilding process as it touches us or be overwhelmed by it.

Last year , my outlook tone was fairly cautious, reflected in projected HOT-LINE numbers for the year just ended:

Real growth - 2 percent:

The final figure is now expected to be less -- around 1 percent; the Mid-East crisis has aggravated the economic slowup caused by earlier credit policy tightening and real estate and construction problems. If you accept the two successive negative quarters of real growth definition of recession, none occurred in 1990 as expected.

Inflation - 4-1/2 percent:

Oil and food price increases pushed up the 1990 inflation rate to about 5 percent; falling prices of most commodities and housing were partial offsets.

Unemployment - 5-1/2 percent:

The jobless rate began to rise toward year-end 1990 as the economy slowed, but for the year as a whole my earlier projection proved reasonably accurate.

Interest Rate Change - within 1 percent, (hopefully down):

Short term rates now average about one percent lower than a year ago, but longer term rates are now slightly more than 1/4 percent higher.

PROLONGED FLAT ECONOMY LIES AHEAD

My first conclusion is that our nation confronts a generally flat economy for at least the next two to three years.

The business cycle is not dead, but corrective basic or structural changes have substantially dampened it on both the "up" and "down" sides. Moreover, 8 years of sustained real growth -- one of the longest periods on record -- have generated some aftermath conditions which point to a rather prolonged period of economic sluggishness ahead.

Traditional economic downturns have averaged about 1 year and upturns between 3 and 4 years.

U.S. history tells us that "boom" decades almost inevitably give way to marked slowdowns. Major corrections seem to recur roughly every 30 years. The 1920's were widely characterized by "free market" and "let it rip" national policies. The Great Depression followed in the 1930's. The 1950's witnessed a post-war boom. Again, the next decade, the 1960's, was marked by setbacks.

On these grounds, we should expect some trouble in the 1990's after the "Boom" of the 1980's. The most recent decade was fueled by such far-reaching changes as deregulation, dramatic expansion of public and private debt, huge foreign investment, and technological breakthroughs. Widespread speculation and greed exaggerated the expansion and made many institutions and individuals vulnerable. Periodic breaks in the securities markets and the shock of Iraq's invasion of Kuwait have exposed many weaknesses with more to come. The financial system will require another five years to achieve stability.

There is no quick or easy way to reduce or erase the mountain of debt our nation and most of its sectors accumulated in the 1980's. Slowing new debt formation and liquidating outstanding debt are certain to retard economic growth for several years. In these circumstances, individuals and institutions with strong financial positions will wield enormous power, but caution may well keep even them from using it.

With lenders and prospective borrowers both likely to be constrained, economic growth cannot become very vigorous soon. We should expect a gradual shift in balance sheets from debt to equity; more determined efforts by corporate leaders to cut costs, including interest, to enhance profits; jammed bankruptcy courts; soak-the-rich and environmentally related tax increases; short-lived rallies in security markets; and more reorganizations and restructurings to meet competition and avoid failure.

Slow to negative real economic growth commonly sparks rising social tensions. When the economic cake ceases to grow, mistakes become more serious, divisiveness increases as someone's gain is likely to be another's loss, and corrective measures all too often aggravate ongoing social grievances and cause new ones. Expect louder cries that the rich are getting richer and the poor getting poorer.

Those who only watch surface developments in this unsettled economy will miss much of the underlying relentless restrengthening of America, especially relative to other nations. I am convinced that the vitality of our system will be proved once again in coming years.

Fortunately, the sector-by-sector self-correction process in America has proceeded for at least 5 years affecting, e.g., manufacturing, energy, finance, construction, etc. But, correction will involve more fundamental policies in this decade and become even more pervasive across public and private activities and functions as sluggishness persists. This is because most Americans, as I have long noted, ignore early warning signals and make major corrective decisions only when crisis occurs.

Growth also will be limited by growing U.S. and <u>worldwide capital and skilled labor shortages</u> as well as some <u>slowing and redirection of foreign investment</u> away from the United States. But, make no mistake about it, America will continue to be a major player in tomorrow's world.

The U.S. is certainly not alone in facing basic problems. What nation can match our total assets? -- or has a better system? Nevertheless, it will take time for the general public to sense the positive effects of an otherwise disturbing correction process. In short, what lies ahead is not a traditional 13 month business cycle downturn; but rather, several years of worrisome flat economic performance amidst varying degrees of social and political turmoil.

<u>WE ARE NOW IN A PSYCHOLOGICAL RECESSION</u>

My second conclusion is that the U.S. is now in a psychological recession.

Last year I observed that changes in the general level of confidence compound economic changes. I reported at least six levels of confidence: 1) euphoria, 2) solid optimism, 3) doubt, 4) fear, 5) disillusionment, and 6) panic. A year ago, the general U.S. confidence level was between solid optimism and doubt; today, as several recent polls indicate, overall confidence has slipped to the borderline between doubt and fear. To a considerable extent, this reflects the shock experienced by a massive younger generation learning for the first time that economic growth and personal gains are not automatic even in America. We have to earn them.

Deteriorating confidence spreads caution among policy makers and the public at large. This psychological dampening trend must be reversed over the next 3 to 9 months if severe cumulative negative economic impacts are to be avoided. Otherwise, my Hot-Line numbers for 1991 will have to be revised.

Before we get too pessimistic, it is important to recall that in the deepest post-war recession -- 1981-82 -- 80 percent or more families and individuals were untouched economically -- but probably 50 percent were psychologically shocked.

Some confidence improvement is to be expected, simply because it has plunged so sharply and quickly. But, convincing resolution of the Mid-East conflict and comforting signs of more stability in financial markets are essential to a fundamental boost in public confidence and real growth in the economy.

1991 HOT-LINE ECONOMIC NUMBERS

My 1991 Hot-Line numbers are "0 - 5-1/2 - 6-1/2 - 1".

"0" means no significant overall real growth in 1991. Some industries, sectors, and regions, including the West, will do better. A technical recession is likely to be reported by the U.S. Department of Commerce or the National Bureau of Economic Research early in 1991. But, unless the GNP data are revised, recession (i.e., two negative quarters) cannot be officially confirmed before the end of this first quarter in 1991. There was still positive growth through the third quarter of 1990.

"5-1/2" refers to the annual percentage increase in inflation. War in the Mid-East, of course, would skyrocket oil prices and a set off a new inflationary wave across the U.S. and much of the world. But, otherwise, few major price changes lie ahead. Taxes will be moving up. Some lessening in energy costs can be anticipated. Worldwide supplies of basic agricultural products are in surplus.

"6-1/2" percent unemployment reflects a slow-growth economy unable to absorb entrants into the labor force as well as offset layoffs, but is still close to "full employment".

"1" percent is the range within which interest rates will move. The Federal Reserve will not ease money costs significantly in the face of inflation threats and a depressed U.S. dollar or sharply tighten money at a time of impending recession.

Thus, the chances of a sharp advance in the economy this year are small. Neither the policy tools nor pent-up demand and funds are available to stimulate economic expansion soon. Possibilities of a very deep general decline also seem limited. U.S. fundamental strengths remain impressive: human and material resources; racial-cultural diversity; abundant agriculture; growing international trade; unequaled research, technology, and information skills; increased competitiveness; new business creativity; improved productivity and saving; and unprecedented services.

Many popular rather extreme cyclical upturn or depression expectations and assumptions for the year ahead strike me as tinged with lack of reality. What we'd like to see happen is frequently blended into forecasts of what is expected to happen.

Most current economic forecasts for 1991 assume the U.S. will be out of the Mid-East by April 1991, certainly before 1992; and out of recession by fall. The alliance against Saddam Hussein is expected to hold together (despite departure of Britain's Prime Minister, Mrs. Thatcher). The shaky U.S.S.R. is expected to be a continuing firm ally under Mikail Gorbachev's persistent leadership. Japan's financial system and overall economic power are assumed to be impregnable. President Bush is expected to continue to have strong veto power with no "lame duck" threat going into the 1992 Presidential elections. Maybe so? Maybe not? There are many obvious wild cards in this 1991 deck.

"Shocks and Shortages" was the title of my talk a year ago. Again, this year, we must prepare ourselves for more surprises and shocks as fairly normal in our changing, strife torn world.

SOME MAJOR ISSUES THE U.S. MUST FACE

My fourth conclusion is that how well we resolve at least four major issues over the next few years will significantly shape the future for the United States for a long time to come: 1) Reversing public aversion to risk, 2) learning to share leadership, 3) strenghtening business-government working relations, and 4) tempering poverty and homelessness.

Most Americans consciously or unconsciously have long believed it possible to eliminate virtually every recognizable risk in living. This noble and popular goal understandablu has been espoused and widely reinforced by political leaders. There has been insufficient regard for many practical considerations as well as the eventual mounting costs associated with pursuing this goal. We've overlooked who will pay.

A society devoid of risk is impossible; merely to live is to confront risk. To carry risk-elimination-reduction to the extreme is to invite economic bankruptcy because costs inevitably become prohibitive.

If there is any rule of truth in economics, it is that human wants always are insatiable and the resources to meet them always limited. More than ever flat economic times require priorities. No nation, including the U.S., can do everything for every one.

Many economic and financial problems we face now arise from well intentioned but unrealistic past political promises to cut or end risks including unemployment, housing, bank deposits, family crises, health care, safety, and more recently environment concerns and even ordinary human mistakes. To suggest that citizens accept more risks personally is to be labeled as callous and cruel.

Government mandated spending for risk-eliminating-reducing programs is now committed to rise faster than projected revenues, with great danger of growing chronic fiscal deficits at all levels of government. Over 30 states now face fiscal deficit crises. The bills from past commitments are coming due and strongly suggest lower living standards on the horizon for many Americans.

Long pursuit of risk-free policies actually has now created some new risks which pose threats to the economic and social fabric of the nation -- e.g., inflation, higher interest rates, prohibitive insurance costs, loss of confidence in securities and currency, bankruptcies, overburdened courts, costly regulatory measures, and substantial public disillusionment and frustration because of unfulfilled promises.

Can the U.S. educate its people to accept more responsibility for personal risks? There probably is no near-time way to reverse long cultivated public thinking, except to let present programs follow their expensive course, run out of money, and force cutbacks and higher taxes.

Many elected officials admit that total government spending is out of control because 1) too many citizens demand benefits with little if any concern for costs or who will pay -- so long as they don't have to do so -- and 2) politicians want to get reelected and don't want to anger voters.

The end of ever increasing government borrowing to cover public risk-elimination-reduction may be close at hand. Interest on the public debt will soon be the largest single expenditure of the federal government. The cost of capital to finance U.S. public and private activities has already reached a level where many companies and families are driven out of markets -- in turn slowing the economy.

Something has to give. A major government financial crisis in the 1990's may be unavoidable.

<u>Shared leadership</u> poses major growing challenges for our country -- at home and abroad in coming years.

No other country rivals the U.S. as overall world leader. While acceptance of U.S. leadership is still high, our diminished relative economic and political power lessens our clout and seems likely to continue to do so. We can't dominate world affairs or expect to have our way as routinely as in the past. Clearly, the U.S. and most of us face increasing questions about how and with whom we can lead in the future.

The present Middle East situation illustrates what to expect generally in the years ahead. The U.S. no longer can lead and go it alone. We need friends and must muster support from other nations to keep the peace and promote economic growth and stability. Frequently foreigners deem it politically wise to be an open "friend" of the U.S., but, not be labeled as a pawn of America.

As U.S. dominance persists but wanes, major economic and political blocs appear to be forming -- e.g., Europe, Asia, and North America.

At the center of the global shared leadership issue is whether future groupings of nations will allow for different nation alignments as issues come and go? Or, will major blocs become increasingly inflexible and adversarial? If so, the U.S. could find itself trying to lead a North American bloc in an increasingly antagonistic world.

Shared leadership is also becoming more important domestically and certainly in the West. To deal with it we must develop: 1) more widely supported United States national positions on major global issues of concern to our citizens; 2) more multi-racial, ethnic, and cultural leaders to make our growing diversity of people a source of new strength rather than divisive weakness, and 3) more public understanding of the common stake all Americans have in assuring a continuing strong future for our country, tempering single-special domestic-local interests which now dominate public discussion as though there are no concerns or challenges from outside.

Business executives and government officials have to find more ways to increase the effectiveness of their relationships in the future interest of the United States. Few if any nations have weaker public and private sector understanding and mutual concern. The contrast with business-government working together in Europe and Asia is dramatic. Admittedly, the U.S. system is different, but we must find more common goals and reduce the important advantage we are giving our competitors.

A U.S. government friend stated his feelings bluntly a few weeks ago when he said -- "Business leaders always seem determined to stop us government types from ever winning." Similarly, a business executive colleague also commented recently -- "Government bureaucrats are always negative toward us; they consider that their main job is to save the public from us."

Instances of close government-business relations furthering the national interest strike me as exceptions. I know of U.S. officials who negotiate international agreements affecting American businesses who have a terrible time getting and keeping the private sector involved; there are also U.S. negotiators who couldn't care less about the effects of their decisions on U.S. businesses.

There are deep and long-standing legal and other reasons for this cleavage. But, the U.S. is now in a correction decade in which the need and opportunity for more mutual public-private understanding and action are greater than ever.

Another generation -- i.e., baby boomers -- of potentially anti-business officials and anti-government executives -- is moving into corner offices. Won't somebody stand up on each side and say it is time to strengthen relationships in facing issues critical to our nation's future?

How much longer must it take a war to bring the public and private sectors closer together in the national interest?

Poverty and homelessness are on the rise in America and we don't seem to know how to deal with them effectively.

Fingers of blame are pointed in many directions. Reams of statistics are cited to show need. Alcohol, drugs, poor physical and mental health, and weak education are all clearly involved. Strong motivation to want to break out of the poverty-homeless chain seems essential, along with some element of disciplined living. Public awareness and concern increase during the holiday season, but commonly ebb soon thereafter. Public fears over personal safety are rising in the face of mounting numbers of panhandlers, often intimidatingly aggressive on streets all over America. Foreigners seem appalled and question how well our system is really working.

Again, there is no quick fix. But, this problem is rapidly approaching the crisis stage.

From my perspective, the issue gets down fundamentally to individual capability, capacity and cooperation -- and the solution involves more one-by-one and one-on-one. A major distinction seems to be between those unfortunates who are temporarily down on their luck and need help to get reestablished and others in varying degrees unable or unwilling to change or help themselves.

Both the public and private sectors must get more deeply involved. That means each one of us. The days of our dumping this problem on others or turning our backs are numbered.

DON'T PANIC -- THE FUTURE IS WHAT WE MAKE IT

My fifth conclusion is don't panic -- expect most of what we are doing to be questioned and tested -- keep flexible.

Prolonged flat economic growth will accelerate the need for resolution of all these major U.S. problems. There is no turning back. The forces of fiscal reality, less risk avoidance, more shared leadership, less adversarial business-government relations, and reduced poverty and homelessness are gaining momentum.

We can't expect or want some grand plan to rescue America. There isn't any. Our system has all the ingredients to correct itself with compassion for those adversely affected. What is required is that the system be allowed to work with more reality and affordability. We face several years -- possibly most of the decade -- of correction of earlier political over-promising and financial excesses.

The economy will move relentlessly ahead on a jerky course. Few windfall gains will be generated. Profits will reflect much more managements' basic capability and solid performance than financial manipulations. Frustration will intensify because most Americans expect quick and painless answers. Such will be hard to find in the years just ahead.

What specifically do we do now?

1) *Return to basics -- check the core strength of all operations; discard the obsolete; strive to become the low cost producer; generously reward excellence; and rebuild confidence by action.*

2) *Preserve financial strength as the highest priority -- availability of funds will be more important than cost in this period.*

3) *Find prudent customers with good credit ratings -- who can and will still buy well offered products and services of real value and usefulness.*

4) *Build risk-sharing alliances carefully with the most important people and organizations associated with the core business.*

5) *Cultivate constructive relations with reregulators who will soon shape the new political atmosphere for business.*

6) *Strengthen the international dimensions of whatever we are doing.*

7) *Reach out to major universities for research help -- willingness and ability to cooperate can be vastly improved.*

8) *Acquire distress assets and capable people to enhance the core business with any "extra" financial resources.*

9) *Strengthen family relations and faith as sources of needed strength in these unsettled times.*

CONCLUDING COMMENT

I return to my theme -- the U.S. is in an extended correction-rebuilding mode -- which will limit economic growth but also provide new opportunities and incentives to bring the best out of America. Our great nation will be building for a better tommorow, in part because of what we learned to do and not do in the 1980's.

The future is still very much in our hands. Necessity will force us to come closer in the 1990's to deciding our fundamental priorities. Our correction progress in due course will boost confidence here and abroad about the future of America.

Some years hence our renewed strength will enable us to buy back assets we sold to foreigners in the 1980's.

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